HL GROUP 恆力房地產集團

HENGLI PROPERTIES DEVELOPMENT (GROUP) LIMITED
恆力房地產發展(集團)有限公司

(Incorporated in Bermuda with limited liability)

Annual Report 2008

Stock Code: 169

Contents

BOARD OF DIRECTORS

Mr. Chen Chang Wei *(Chairman & Managing Director)*
Ms. Chan Sheung Ni *(Executive Director)*
Ms. Chen Dongxue *(Executive Director)*
Mr. So Pang Gen *(Non-executive Director)*
Ms. Lin Wen Feng *(Independent Non-executive Director)*
Mr. Ma Ving Lung *(Independent Non-executive Director)*
Mr. Yip King Keung, Pony
(Independent Non-executive Director)

AUDIT COMMITTEE

Mr. Ma Ving Lung *(Chairman)*
Mr. Yip King Keung, Pony
Ms. Lin Wen Feng

REMUNERATION COMMITTEE

Mr. Yip King Keung, Pony *(Chairman)*
Mr. Ma Ving Lung
Ms. Lin Wen Feng

NOMINATION COMMITTEE

Mr. Yip King Keung, Pony *(Chairman)*
Mr. Ma Ving Lung
Ms. Lin Wen Feng

COMPANY SECRETARY

Ms. Hui Wai Man, Shirley

PRINCIPAL BANKERS

Chiyu Banking Corporation Limited
Bank of China (Hong Kong) Limited
Bank of China

AUDITORS

Grant Thornton

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

Unit 3401, 34th Floor
Tower Two, Lippo Centre
89 Queensway
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, HM 08 Bermuda

HONG KONG PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

STOCK CODE

169

	For year ended 31 December		
	2008	2007	
	HK$'000	HK$'000	Change %
Revenue			
Property letting	**18,683**	18,540	+0.8
Sale of land use rights	**128,957**	84,906	+51.9
Sales of developed properties	**1,389**	32,875	−95.8
Total revenue	**149,029**	136,321	+9.3
(Loss)/profit before income tax	**(555,146)**	83,953	−761.3
(Loss)/profit attributable to equity holders	**(503,523)**	18,406	−2,835.6
Basic (loss)/earnings per share	**HK (57.21) cents**	HK6.24 cents	−1,016.8
Cash and bank balances	**89,133**	23,864	+273.5
Total assets	**3,997,432**	766,003	+419.2
Total liabilities	**3,772,640**	408,665	+823.20
Equity attributable to the Company's equity holders	**135,942**	294,388	−53.8
Current ratio	**4.2**	1.6	
Gearing ratio	**70.6%**	51.3%	
Bank borrowings to equity ratio	**657.4%**	21.7%	

On behalf of the Board of Directors (the "Board") of the Hengli Properties Development (Group) Limited (the "Company"), I am pleased to present the annual report of the Company together with its subsidiaries (the "Group") for the year ended 31 December 2008.

RESULTS

Turnover for the Group for 2008 amounted to HK$149.0 million, representing an increase in 9.3% as compared to HK$136.3 million for 2007. The Group's turnover was mainly attributable to the satisfactory sales results of selling property in Ningbo and sale of land in Changchun for the year. After deducting (i) impairment on goodwill of approximately HK$299,000,000 (ii) provision for impairment on properties under development of approximately HK$125,000,000 and finance cost of HK$102 million, which was mainly interest for convertible bonds (approximately HK$88.3 million), the Group recorded a loss attributable to equity holders of the Company amounted to approximately HK$503.5 million (2007: profit of 18.4 million).

SUBSTANTIAL ACQUISITION AND DISPOSAL

The most significant development in year 2008 was the acquisition of Fujian Zhonglu Real Estate Development Co., Ltd ("Fujian Zhonglu"), which was completed in January 2008. The Board believes that the acquisition will bring to the Group significant increase in asset value and land bank. Fujian Zhonglu owns a piece of land with site area of approximately 24,979 sq.m. in the financial district of Fuzhou (capital of Fujian Province), which will be developed into one of the tallest building in Fuzhou, with residential, office, carpark and shopping mall with a total gross floor area of around 242,268 sq.m. (the "Project"). Up to the report date, Fujian Zhonglu had obtained Commodity Premise Pre-sale Permit for residential, office and carpak of the Project.

During the year, disposal of its entire interest in China Fair Land Properties Limited to International Offshore Development Limited (the "IOD"), was completed in Dec 2008. The disposal resulted in gain on disposals of subsidiaries of approximately HK$30 million for the year.

PROSPECTS

The global economic condition will remain stagnant in the year ahead as major economies are going into recession. Although the central government and certain local government launched measure to stabilize the housing price and revive the property market, which has seen an increase in transaction volume at the beginning of the year, the market still remains challenging with increased inventory, tightened credit and lack of customer confidence. This situation will persist for some time. However, the Group believes that market demand still exists and Group will enhance the service quality through product innovation and expansion of marketing channels. We remain confident to longer term prospects of the property market in China and will continue to position our Group to take advantage of the recovery of the PRC property market.

Looking forward to 2009, in term of corporate strategies, the Group will continue to refine our strategies prudently. With a solid foundation on property development and a prove track record on property development, the Group will strive to gradually increase the proportions of project with a strategic focus on position itself as a high quality boutique property developer.

ACKNOWLEDGEMENT

On behalf of the Group, I would like to take this opportunity to thanks the Directors, our staff, partners, shareholders and all parties who have rendered their support and contribution to the Group.

Chen Chang Wei
Chairman

28 April 2009

BUSINESS REVIEW

Turnover of the Group for 2008 amounted to HK$149.0 million, representing an increase of 9.3% as compared to HK$136.3 million for 2007. Included in turnover for 2008 were sales of developed properties, sales of land use rights and rental income from property letting. Sales of developed properties and land use rights amounted to approximately HK$1.4 million (2007: HK$32.9) and HK$129.0 million (2007: HK$84.9) respectively. The rental income from investment properties amounted to approximately HK$18.7 million (2007: HK$18.5). Gross profit of the Group amounted to approximately HK$73.3 million, a decrease of 18% as compared to HK$89.6 million for 2007. The Group's gross profit ratio for the year amounted to 49.2%, a decrease of 16.6% as compared to 65.8% for 2007. The decrease of gross profit ratio was caused by the drop on proportion of sales of developed properties. Loss attributable to equity holders amounted to HK$503.5 million, a decrease of approximately HK$521.9 million as compared to the profit of HK$18.4 million for 2007. The decrease is mainly due to material affect by i) provision of impairment on account receivables of 73.3 million and other receivables of HK$8.3 million due to deteriorate of market condition, ii) finance costs incurred on convertible bonds of HK$88.3 million and promissory notes of HK$8.2 million, iii) loss on changes in fair value of investment properties of HK$22.1 million, and iv) the impairment loss on properties under development of HK$125 million and goodwill of HK$299 million.

During the year, the Group sold residential and commercial properties with a total gross floor area of 234 sq.m. (2007: 6,256 sq.m.), representing a decrease of 96.3% over last year. The rental income from investment properties was derived from the developed properties in Changchun, Nanjin and Ningbo, which the industrial property in Changchun generated rental income of HK$15.7 million during the year. As the Group did not have new property development project completed during the year, all the sales of developed properties was generated from properties held for sales developed in previous years. Turnover for the year was mainly attributable from saleable properties such as Wenjing Garden in Ningbo and sales of land in Changchun.

The development of residential property project named 盛世嘉苑, located in Chung Xing Road, Jiangbei District, Ningbo has finished in March 2009. The total gross area of the project approximated 81,000 sq.m and launched for pre-sales in February 2008. Also, the construction of a commercial property project named 姚江新都大廈 located in Hongtang Zhong Road, Jiangbei District, Ningbo, is currently in progress. The project involves the development of a commercial property with the total gross area of approximately 46,000 sq.m and is expected to be completed in July 2009 and launched for pre-sale by the end of 2008.

The property named as 中旅城二期, located in the financial district of Fuzhou, Fujian Province, is still under development. The property is being developed into a residential, office and retail development with a total gross floor area of around 242,268 sq.m. Under the current plan, which has been approved by the building authorities, the property will have upon completion one block of 46-storey office building and three blocks of 40 storey residential buildings, commonly erected on top of 7-storey commercial podium accommodating clubhouse facilities, retail spaces and 4 levels of basement car parking spaces. The development of these properties will be expected to provide the growth engine for the Group in the next few years.

In addition, a piece of land located at Gulou District, Fuzhou City, with an area of around 6,035 sq.m was acquired by the Group during March 2008. This land would be used to develop high-end commercial properties in the future. The location of the land is near the location of 中旅城二期 and create a synergy effect, which would enhance the strategic advantage of the Group in the central commercial district of Fuzhou, Fujian Province.

In view of the change in the political atmosphere of Taiwan and the positioning of Fujian Province by the PRC government as Strait West Coast Economic Zone, the Board believes that the real estate industry in Fuzhou would be further developed in the long run.

FINANCIAL REVIEW

Net assets

As at 31 December 2008, the Group recorded total assets and total liabilities of approximately HK$3,997,432,000 and HK$3,772,640,000 respectively. The Group's equity per consolidated balance sheet as at 31 December 2008 decreased by approximately HK$132,546,000 to approximately HK$224,792,000 as compared to approximately HK$357,338,000 as at 31 December 2007.

Liquidity and financial ratios

The Group had total cash and bank balances of approximately HK$89,133,000 as at 31 December 2008 as compared with HK$23,864,000 as at 31 December 2007. As at 31 December 2008, the current ratio was 4.2 as compared with 1.6 as at 31 December 2007. The gearing ratio was 70.6% as at 31 December 2008 as compared with 51.3% as at 31 December 2007. The Bank borrowings to equity was recorded at 657.4% as at 31 December 2008 as compared with 21.7% as at 31 December 2007.

Borrowings

The Group had interest bearing borrowings of approximately HK$893.7 million as at 31 December 2008 (31 December 2007: HK$64.3 million), representing an increase of approximately 1,289.9% over the amount as at 31 December 2007. Borrowings were denominated in Renminbi ("RMB") and Hong Kong dollar ("HK$"). Approximately 18.9% of the borrowing is repayable within one year and the rest representing the bank loans repayable after one year of HK$725 million.

The Group has aggregated net carrying amount of convertible bonds of approximately HK$1,178.4 million (principal amount of approximately HK$2,360.7 million) and promissory note of approximately HK$108.7 million (principal amount of approximately HK$110 million) respectively as at 31 December 2008. All the convertible notes and promissory notes were dominated in HK$.

Foreign currency exposure

As significant portions of the Group's borrowings, turnover and construction costs are primarily denominated in RMB, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations. The Directors also consider that there will be sufficient cash resources denominated in both HK$ and RMB for the repayment of its borrowings. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging instrument outstanding as at 31 December 2008.

PLEDGE OF ASSETS

At the balance sheet date, the Group pledged certain of its investment properties, leasehold properties prepaid, lease payment and properties under developments to banks in the PRC to secure the bank loans of approximately HK$893,478,000 (2007: HK$64,295,000) granted by these banks. The aggregate carrying value of the investment properties, leasehold properties, prepaid lease payment and properties under developments as at 31 December 2008 was amounted to approximately HK$23,794,000, HK$1,552,000, HK$8,185,000 and HK$2,686,427,000 (2007: HK$Nil, HK$Nil, HK$Nil and HK$73,365,000) respectively.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group provided guarantees of approximately HK$72,190,000 (2007: HK$17,053,000) to bank in favor of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as a pledge for security to the mortgage loan granted. At the balance sheet date, no provision for the Group's obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

MATERIAL ACQUISITION AND DISPOSAL

1) According to the Acquisition Agreement with Mr. Chen Chang Wai, at the date of the Acquisition Agreement and the Chairman and Managing Director of the Company at the date of this report, the Company agreed to acquire the entire issued share capital in and certain shareholder's loans of Amazing Wise Limited ("Amazing Wise") for a total consideration of HK$3,008.8 million. Amazing Wise holds 100% interest in Dalong, and Dalong in return holds 95% equity interest in Fujian Zhonglu, a sino-foreign joint venture company incorporated in the PRC.

   The acquisition has been completed on 21 January 2008. Further information of the Acquisition was disclosed in note 41 of the consolidated financial statements.

2) On 21 March 2008, the Group successfully bid for the land use rights from the Land Resources Bureau of Fuzhou City, Fujian Province on a piece of land at a consideration of RMB278,000,000 for property development purpose.

3) On 30 May 2008, the Group entered into a disposal Agreement with International Offshore Development Limited (the "IOD") to sell the entire issued share capital of China Fair Land Properties Limited, a wholly-owned subsidiary of Company and its subsidiaries (together the "CFL Properties Group") and the benefits of and interest in the Sales Loan to the CFL Properties Group. IOD is a company incorporated in the British Virgin Islands, and is an indirect wholly-owned subsidiary of Future Opportunity Limited (the "FOL"), which the entire issued share capital is held by trustee under a discretionary trust, objects of which are family member of Mr. So Pang Gen (non-executive director of the Company).

   The disposal has been completed on 2 December 2008. Further information of the Disposal was disclosed in note 42 of the consolidated financial statements.

CAPITAL STRUCTURE

(a) On 21 January 2008, the Company issued 114,177,000 ordinary shares of HK$0.10 each to Mr. Chen Chang Wei as part of the purchase consideration of acquiring Amazing Wise Limited. The fair value of the shares issued at the date of acquisition amount to HK$55,946,000.

(b) During the year ended 31 December 2008, 682,000,000 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of approximately HK$0.50 per share.

SUBSEQUENT EVENT

On 2 February 2009, according to a confirmation between the Company and Chance Fair International Development Limited ("Chance Fair Int'l"), the amount receivable by the Company from International Offshore of approximately HK$2,307,000 was settled by Chance Fair Int'l through the current account between the Company and Chance Fair Int'l.

On 2 February 2009, according to another confirmation between the Company and Mr. Chen Chang Wei, the amount receivable by the Company from International Offshore Development of approximately HK$33,377,000 was settled by Mr. Chen through the current account between the Company and Mr. Chen.

Upon completion of the above 2 transactions, the outstanding balance receivable from International Offshore Development regarding the disposals of the CFL Properties Group has been fully settled.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2008, the Group employed approximately 57 full time staffs in PRC and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market price while performance bonuses are granted on a discretionary basis. Other employee benefits include insurance and medical cover, subsidized educational and training programs as well as share option scheme.

During the year, no shares options were granted to the Directors. And there were no outstanding shares options granted to the Directors at the end of the year.

No shares options were issued under the Company's share option scheme as at 31 December 2008 (2007: HK$3,700,000).

OUTLOOK

In near future, under the uncertainties from the sudden attack by the global financial tsunami, the real estate market in the PRC will continue to be volatile. Pressure in market demand is expected not to deteriorate in medium and short-term. As growth of sales in real estate has slowed down and the bank has tightened credit, it is expected that enormous financial pressure will be inflicted to real estate enterprises with higher borrowing ratio and thus accelerate market integration, which will provide an advantage development environment for real estate enterprises with financial strength.

The Group has developed and acquired land for projects with a prudent attitude since its listing. Despite the slowdown of global market, the Group will continue to adjust its development strategies and strengthen its development business over time. It will take advantage of the current downturn to increase its residential land bank when opportunities arise.

DIRECTORS

Executive Directors

Mr. Chen Chang Wei ("Mr. Chen"), aged 46, joined the Group on 22 January 2008. Mr. Chen is currently the Chairman and Managing Director of the Company. He is responsible for the overall strategic planning and formulation of the corporate policies of the Group. Mr. Chen graduated from Department of Civil Engineering in Huaqiao University, the People's Republic of China (the "PRC"). He holds a Bachelor Degree of Civil Engineering. Mr. Chen has over 20 years of experience in investment, industrial and commercial sectors and real estate development. Mr. Chen is the husband of Ms. Chan Sheung Ni and brother of Ms. Chen Dongxue. Both Ms. Chan and Ms. Chen are executive directors of the Company.

Ms. Chan Sheung Ni ("Ms. Chan"), aged 44, joined the Group on 1 February 2008, is responsible for corporate planning. Ms. Chan has over 15 years of experience in investment, industrial and commercial sectors and real estate development. Ms. Chan is the wife of Mr. Chen Chang Wei, the Chairman and Managing Director of the Company. She is also the sister-in-law of Ms. Chen Dongxue, the executive director of the Company.

Ms. Chen Dongxue ("Ms. Chen"), aged 38, joined the Group on 15 February 2008. She is mainly responsible for the management of the Group's PRC operations. Ms. Chen graduated from Department of International Finance and Financial Economics in Xiamen University, the PRC. She holds a Bachelor Degree of Economics. Ms. Chen has over 15 years of experience in investment, industrial and commercial sectors and real estate development. Ms. Chen is the sister of Ms. Chen Chang Wei, the Chairman and Managing Director of the Company. She is also the sister-in-law of Ms. Chan Sheung Ni, the executive director of the Company.

Non-executive Director

Mr. So Pang Gen, aged 72, is the founder of the Group, and is currently the Non-executive Director of the Company. Mr. So graduated from Shanghai Tong Ji University with a Bachelor's Degree in Architecture. In 1989, Mr. So established the Group. Mr. So was principally involved in the property development and investment business in the PRC. Mr. So has over 34 years experience in the field of property development in both business in both Hong Kong and PRC. He is a Commissioner of the Standing Committee of the 10th National Committee of the Changchun People's Political Consultative Conference of the People's Republic of China, the Vice-Presidents (Advisory Council) of The Hong Kong Association for the Advancement of Real Estate and Construction Technology Limited, the General Council Member of Hong Kong CPCC (Provincial) Members Association. Mr. So also supported in China's education development. He is a Council Member of Shanghai Tong Ji University Education Development Foundation since 2006. He is a Consultant Professor of Shanghai Tong Ji University and Jilin Architectural & Engineering College. Mr. So was awarded the Queen's Badge of Honor in 1996. Mr. So is currently the Permanent Adviser of Permanent Advisers of Pok Oi Hospital and was engaged as the Chairman, Deputy Chairman and Director of the Board of Directors during 1995/1996.

Independent Non-executive Directors

Ms. Lin Wen Feng, aged 40, was appointed as an Independent Non-executive Director on 15 October 2007. Ms. Lin graduated from the Xiamen University with a Master Degree of Laws. She passed the National Judicial Examination in People's Republic of China in 1992 and has 14 years' practicing experience as a solicitor, which involved in corporate, finance and conveyancing sections.

Mr. Ma Ving Lung, aged 39, was appointed as an Independent Non-executive Director on 30 November 2007. Mr. Ma graduated from York University, Ontario, Canada. He holds a Bachelor Degree of Accountancy with Honors and was qualified as an accountant in USA in 2000. Mr. Ma became an associate member of Hong Kong Institute of Certified Public Accountant in 2000. He has worked for a number of listed companies and has extensive experience in initial public offerings.

Mr. Yip King Keung, Pony, aged 39, was appointed as an Independent Non-executive Director on 14 January 2008. Mr. Yip holds a Bachelor of Business Administration (Honors) from York University, Ontario, Canada. Mr. Yip has more than 10 years experience in the field of business management and property investment.

SENIOR MANAGEMENT

Ms. Hui Wai Man, Shirley, aged 41, joined the Group in December 2000. She is responsible for the financial and company secretarial affairs of the Group. Ms. Hui has over 20 years of professional experience in public accounting and corporate finance. She is a fellow member of The Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. She is also a member of Hong Kong Securities Institute.

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in property letting, sales of land use rights and developed properties and investment holdings in the People's Republic of China (the "PRC").

The principal activities of the Group's subsidiaries and co-operative joint venture are set out in note 19 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year then ended 31 December 2008 are set out in the consolidated income statement on page 28.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2008.

SEGMENT INFORMATION

The Group's revenue and results analysed by principal activities are set out in note 6 to the financial statements.

SUMMARY FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 3. This summary does not form part of the audited financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties of the Group during the year are set out in note 14 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS

Details of the share capital and share options of the Company are set out in notes 38 and 39 to the financial statements respectively.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out on page 35 of the annual report and on note 40(b) to the financial statements respectively.

DIRECTORS AND SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Chen Chang Wei *(Chairman and Managing Director)*	(appointed as Executive Director, Managing Director and Chairman on 22 January 2008, 1 February 2008 and 1 July 2008 respectively)
Chan Sheung Ni	(appointed on 1 February 2008)
Chen Dongxue	(appointed on 15 February 2008)
So Pang Gen *(Chairman)*	(resigned as Managing Director and Chairman on 1 February 2008 and 1 July 2008 respectively and redesignated as Non-executive Director on 1 July 2008)
Wong Hing Ting, James	(appointed on 7 March 2008 and resigned on 1 March 2009)
Yong Kai Man	(resigned on 1 February 2008)
Choi Dun Woo	(resigned on 15 February 2008)
Chim Kim Lun, Ricky	(resigned on 1 December 2008)

Non-executive director:

So Pang Gen	(resigned as Managing Director and Chairman on 1 February 2008 and 1 July 2008 respectively and redesignated as Non-executive Director on 1 July 2008)

Independent non-executive directors:

Lin Wen Feng	
Ma Ving Lung	
Yip King Keung, Pony	(appointed on 14 January 2008)

In accordance with clause 99 of the Bye-Laws of the Company, Mr. So Pany Gen and Ms. Lin Wen Feng will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Mr. Chen Chang Wei, Ms. Chan Sheung Ni and Ms. Chen Dongxue have a service contract with the Company for a fixed term of 2 years, which may be terminated, by either side, on 6 month's notice. The Company has not entered into service contract with Mr. So Pang Gen and Mr. Chim Kim Lun, Ricky.

The term of office for each non-executive director is the period up to his/her retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2008, the interests of the directors and their associates in the ordinary shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long position in ordinary shares of HK$0.10 each of the Company

Name of directors	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Chen Chang Wei	Beneficial owner and held by controlled corporation [(1)]	272,747,000	24.97%
Mr. Chim Kim Lun, Ricky	Held by controlled corporation [(2)]	137,430,000	12.58%
Mr. So Pang Gen	Beneficial owner and held by discretionary trust [(3)]	10,320,000	0.94%
Ms. Chan Sheung Ni	Beneficial owner [(4)]	300,000	0.03%
Ms. Chen Dongxue	Beneficial owner [(5)]	43,774,000	4.01%

(1) Mr. Chen Chang Wei was appointed on 22 January 2008. As at 31 December 2008, Mr. Chen was deemed to be interested in 272,474,000 shares of the Company, of which (1) 4,570,000 shares were directly held by Mr. Chen, (2) 86,000,000 shares were held in trust for him by Ever Good Luck Limited (a company incorporated in the British Virgin Islands ("BVI") of which the entire issued share capital is beneficially owned by Mr. Chen), and (3) 182,177,000 shares were beneficially owned by Ever Good Luck Limited.

(2) Mr. Chim Kim Lun, Ricky, who was resigned on 1 December 2008 is the son of Mr. Chim Pui Chung, the beneficial owner of Golden Mount Limited ("Golden Mount"). Accordingly, he is deemed to be interested in the 137,430,000 shares held by Golden Mount under SFO.

(3) Included in these shares of which 280,000 are held by Mr. So Pang Gen, while the remaining of 10,040,000 are held by International Offshore Development Limited, a company incorporated in the BVI. Chance Fair International Development Limited, a company incorporated in Hong Kong, is the beneficial owner of the entire issued share capital of International Offshore Development Limited. Trustcorp Limited, a company incorporated in the Island of Jersey, Channel Islands which holds all the issued share capital of Future Opportunity Limited as trustee under a discretionary trust, the discretionary trust objects of which include the family members of Mr. So Pang Gen.

(4) Ms. Chan Sheung Ni was appointed on 1 February 2008. As at 31 December 2008, she held 300,000 shares under her name.

(5) Ms. Chen Dongxue was appointed on 15 February 2008. As at 31 December 2008, she held 43,774,000 shares under her name.

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2008.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 39 to the financial statements.

There were no new shares options granted during the year and outstanding as of 31 December 2008.

Other than as disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors nor chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2008, the following persons or corporations (other than a Director or Chief Executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and so far as is known to any Director or Chief Executive of the Company.

Name	Long position/ Short position	Capacity/ Nature of interest	Number of shares held	Approximate percentage of shareholding
Ever Good Luck Limited	Long	Beneficial interest (1)	182,177,000	16.68%
New Double Good Limited	Long	Beneficial interest (2)	200,000,000	18.31%
Glories Structure Limited	Long	Beneficial interest (3)	170,000,000	15.56%
Golden Mount	Long	Beneficial interest (4)	137,430,000	12.58%

(1) Ever Good Luck Limited is a company incorporated in the BVI, the entire issued share capital of which is ultimately held by Mr. Chen Chang Wei.

(2) New Double Good Limited is a company incorporated in the BVI.

(3) Glories Structure Limited is a company incorporated in the BVI.

(4) Mr. Chim Pui Chung is the beneficial owner of Golden Mount. Mr. Chim Kim Lun, Ricky, the ex-executive director who resigned on 1 December 2008, is the son of Mr. Chim Pui Chung.

Save as disclosed above, as at 31 December 2008, no person, other than the director and his associated corporations stated under the paragraph headed "Directors' interests in securities" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of SFO.

CONNECTED TRANSACTIONS

Connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are disclosed in note 46 to the financial statement.

DIRECTORS' INTERESTS IN CONTRACTS

No other contract of significance, to which the Company or any of its holding companies or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts for management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company had adopted share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in Note 37 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were more than 94% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 45% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 32% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2008 except for deviations disclosed in Corporate Governance Report on page 17.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code/the required standard of dealing and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

AUDIT COMMITTEE

The audited consolidated financial statements for the year ended 31 December 2008 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in Corporate Governance Report on pages 22 to 23 of the annual report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

DONATIONS

During the year, the Group made charitable donations amounting to approximately HK$383,333. (2007: Nil).

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Grant Thornton as auditors of the Company.

On behalf of the Board

CHEN CHANG WEI
Chairman

Hong Kong, 28 April 2009

The Company is committed to maintaining a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board of Directors of the Company (the "Board") believes that good corporate governance is essential for the effective management, a healthy corporate culture and balancing of business risk. And it is also essential to the success of the Company and the enhancement of shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2008, except for deviations from Code Provision A.4.1 (tenure of non-executive directors) and Code A-2-1 (Seperate of roles of chairman and chef executive officer) as explained in the relevant paragraphs in this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard as set out in Model Code during the year ended 31 December 2008.

THE BOARD OF DIRECTORS

The Board currently comprises seven Directors, including three Executive Directors, one Non-executive Director and three Independent Non-executive Directors. All three Non-Executive Directors are Independent Non-Executive Directors which represent over one-third of the Board. And its composition of the Board during the year ended 31 December 2008 and up to the date of this report is set out as follows:

Executive Directors:

Chen Chang Wei *(Chairman and Managing Director)*	(appointed as Executive Director, Managing Director and Chairman on 22 January 2008, 1 February 2008 and 1 July 2008 respectively)
Chan Sheung Ni	(appointed on 1 February 2008)
Chen Dongxue	(appointed on 1 February 2008)
So Pang Gen *(Chairman)*	(resigned as Managing Director and Chairman on 1 February 2008 and 1 Jaly 2008 respectively and redesignated as Non-executive Director on 1 July 2008)
Wong Hing Ting, James	(appointed on 7 March 2008 and resigned on 1 March 2009)
Yong Kai Man	(resigned on 1 February 2008)
Choi Dun Woo	(resigned on 15 February 2008)
Chim Kim Lun, Ricky	(resigned on 1 December 2008)

Non-executive Director:

So Pang Gen	(resigned as managing Director and Chairman on 1 February 2008 and 1 July 2008 respectively and redesignated as Non-executive Director on 1 July 2008)

Independent Non-executive Directors ("INED"):

Lin Wen Feng	
Ma Ving Lung	
Yip King Keung, Pony	(appointed on 14 January 2008)

THE BOARD OF DIRECTORS *(Continued)*

The brief biographical details of the Directors are set out in the "Biographical Details of Directors and Senior Management" section in the Directors' Report on pages 9 to 10. Except for Ms. Chan Sheung Ni, who is the wife of Mr. Chen Chang Wei, and Ms. Chen Dongxue, who is the sister of Mr. Chen Chang Wei, there is no financial, business, or other material/relevant relationship amongst the Directors.

BOARD PRACTICE

The Board is collectively and ultimately responsible for how the Company is managed, its strategic direction and performance. The Board meets to plan, decide and review these matters, which resolutions are put to a vote. In particular, approval of the Board is required for adopting the strategy of the Group from time to time, major acquisitions and disposals of the Group, major capital investments, dividend policy and recommendation, appointment and retirement of Directors and senior management, their remuneration policy and other major operations and financial matters. Day-to-day operations of the Group and implementation of the Board's decisions and strategy are delegated to the company's management team.

The Chairman, assisted by the Company Secretary, has ensured that the Board adheres strictly to all rules and requirements for its meetings and the maintenance of full and proper records. Procedures are established for every director to have access to board papers and related information, to have the services of the Company Secretary, and to seek independent professional advice at the Company's expense upon reasonable request.

The Board acknowledges their responsibilities for the preparation of the financial statements of the Company and ensures that they are prepared in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publications of such financial statements.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the year, thirty-five Board meetings were held and attendance of each Director at the Board meetings is set out as follows:

	Number of Board meetings Attended/held
Executive Directors:	
Chen Chang Wei *(Chairman and Managing Director, appointed as Executive Director, Managing Director and Chairman on 22 January 2008, 1 February 2008 and 1 July 2008 respectively)*	22/33
Chan Sheung Ni *(appointed on 1 February 2008)*	1/32
Chen Dongxue *(appointed on 15 February 2008)*	1/31
Wong Hing Ting, James *(appointed on 7 March 2008 and resigned on 1 March 2009)*	23/24
Yong Kai Man *(resigned on 1 February 2008)*	0/3
Choi Dun Woo *(resigned on 15 February 2008)*	1/4
Chim Kim Lun, Ricky *(resigned on 1 December 2008)*	28/33
Non-executive Director:	
So Pang Gen *(Resigned as Managing Director and Chairman on 1 February 2008 and 1 July 2008 respectively and redesignated as Non-executive Director on 1 July 2008)*	25/35
INEDS:	
Lin Wen Feng	1/35
Ma Ving Lung	10/35
Yip King Keung, Pony *(appointed on 14 January 2008)*	9/35

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and Chief Executive Officer should be clearly established in writing.

In place with the business development and growth of the Group, the Group currently maintains a small but efficient team in the daily operations of the Group. Due to the small size of the team, both the roles of the Chairman and Managing Director of the company are currently played by Mr. Chen Chang Wei. The Board considers the currently simple but efficient team serves sufficiently enough the need of the Group. The Board will, nonetheless, review into business growth of the Group and, when considered essential, will set out a clear division of responsibilities at the board level and the day-to day management team to ensure a proper balance of power and authority within the Company.

The Board currently comprises three Executive Directors (one of whom is the Chairman and Managing Director), one Non-executive Director and three Independent Non-executive Directors. Mr. Chen took over the role of Chairman and Managing Director during the year. He primarily responsible for leadership of the Board, ensuring the effectiveness in all aspects of its role and for setting its agenda, whereas clearly established executive responsibilities for running of the business of the Group lie with difference designated senior executives. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board and a clear division of responsibility for the running of the business of the Group. The Board believes that the structure outlined above is beneficial to the Company and its business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-executive Directors provide the Group with a wide range of expertise and experience. Their active participation in Board and committee meetings brings independent judgment on issues relating to the Group's strategy, performance and management process, taking into account the interests of all shareholders.

The Company has three INEDs representing over one-third of the Board. And one of the INEDs has appropriate accounting or related financial management expertise under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his/her independence and considers that all the INEDs are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Code Provision A.4.1 stipulates that Non-executive Directors should be appointed for a specific term, subject for re-election. None of the existing Non-executive Directors are appointed for a specific term. However, all the Non-Executive Directors shall be subject to retirement by rotation under "Appointment and Re-election of Directors" in accordance with the Company's Bye-Laws mentioned as below paragraph. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board has established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorship of the Company. The Nomination Committee shall, based on those criteria as set out in the Nomination Procedure (such as appropriate experience, personal skills and time commitment etc.), identify and recommend the proposed candidate to the Board for approval of an appointment.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. The senior management will subsequently conduct such briefing as is necessary to give the new Directors more detailed information on the Group's business and activities.

The Non-executive Directors of the Company had no fixed term of office, but retired from office on a rotational basis in accordance with the relevant provisions of the Company's Bye-laws. According to Provision 99 of the Bye-Laws of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot. The retiring Directors shall be eligible for re-election. The Company at any general meeting at which any Directors retire may fill the vacated offices. Further, any Director appointed to fill a casual vacancy or as an addition to the Board should hold office only until the next following annual general meeting and should then be eligible for re-election at the meeting.

BOARD COMMITTEES

The Board has established various committees, including a Remuneration Committee, an Audit Committee and a Nomination Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on page 18 in the section "The Board Practice" above, have been adopted for the committee meetings so far as practicable.

BOARD COMMITTEES *(Continued)*

Remuneration Committee

The Remuneration Committee currently consists of three members, including Mr. Yip King Keung, Pony (Chairman), Mr. Ma Ving Lung and Ms. Lin Wen Feng, all of whom are INEDs. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) to review and recommend to the Board the remuneration policy and packages of the Directors and, where appropriate, to consult the Chairman and/or the Managing Director about the committee's proposals relating to the remuneration of other Executive Directors;

(ii) to review and recommend performance-based remuneration by reference to corporate goals and objectives approved by the Board from time to time;

(iii) to review and recommend the compensation payable to Executive Directors relating to any loss or termination of their office or appointment;

(iv) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(v) to ensure that no Director is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee of the Company were adopted in June 2005 to comply with the Code Provision B.1.3, but with a deviation from the code provision of the remuneration committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of Executive Directors only and not senior management for the following reasons:

(i) The Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) The Remuneration Committee members only consist of INEDs who may not be industry skilled and come from differing professions and backgrounds and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) The Executive Directors must be in a position to supervise and control senior management and thus must be able to control their compensation; and

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

(iv) There is no reason for Executive Directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The Remuneration Committee shall meet at least once a year. Three committee meetings was held in 2008 to review and discuss the existing policy and structure for the remuneration of Directors, the remuneration packages of both the Executive and Non-executive Directors and the attendance of each member is set out as follows:

Committee member	Number of Committee meeting attended/held
Yip King Keung, Pony *(Chairman, appointed on 14 Janaury 2008)*	3/3
Ma Ving Lung	3/3
Lin Wen Feng	0/3

Details of the Directors' remuneration are set out in note 13 to the financial statements.

In order to attract, retain and motivate the senior executives and key employees of the Group, including the executive Directors, the Company has adopted a share option scheme in May 2002. Details of the share option scheme are set out in the Directors' Report on page 11 and note 39 to the financial statements.

Audit Committee

The Audit Committee has been established since May 2002 and currently consists of three Independent Non-Executive Directors. To retain independence and objectivity, the Audit Committee is chaired by an INED with appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Mr. Ma Ving Lung (Chairman), Mr. Yip King Keung, Pony and Ms. Lin Wen Feng. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

The major roles and functions of the Audit committee are:

(i) to consider and recommend to the Board on the appointment, re-appointment and removal the external auditors;

(ii) to approve the remuneration and terms of engagement of the external auditors, and any questions of resignation or dismissal of that auditors;

(iii) to discuss with the external auditors the nature and scope of the audit and reporting obligations before the audit commencement;

BOARD COMMITTEES *(Continued)*

Audit Committee *(Continued)*

(iv) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(v) to review the interim and annual financial statements, interim and annual reports before submission to the Board;

(vi) to develop and implement policy on the engagement of the external auditor to supply non-audit services;

(vii) to review the Group's financial and accounting policies and practices;

(viii) to review the external auditors' management letters, any material queries raised by the auditor to management in respect of accounting records, financial accounts or system of control and management's response and to ensure the Board will provide a timely response to the issue raised;

(ix) to review the Groups' financial controls, internal control and risk management systems; and ensure that the management has discharged its duty to have an effective internal control system;

(x) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to monitor the effectiveness of the internal audit function; and

(xi) to consider any findings of major investigations of internal control matters as delegated by the Board and or on its own initiative and management's response.

The Audit Committee has explicit authority to investigate into any matter under the scope of its duties and the authority to obtain independent professional advice. It is given full access and assistance from management and reasonable resources to discharge its duties properly. At least once annually, the Audit Committee will meet the external auditors.

The Audit Committee will meet at least twice each year. In 2008, the Audit Committee met four times considering the annual results of the Group for the financial year ended 31st December 2007 and the interim results of the Group for the 6 month ended 30th June 2008, discussing with the auditors of the Company on internal control, auditors' independence, auditors' remuneration and the scope of work in relation to the annual audit and reviewing the continuing connected transactions of the Group. Attendance records of the Audit Committee members in 2008 are as follows:

Committee member	Number of Committee meetings attended/held
Ma Ving Lung *(Chairman)*	4/4
Yip King Keung, Pony *(appointed on 14 Janaury 2008)*	4/4
Lin Wen Feng	1/4

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with the support from finance department, the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group. The Directors also confirm that, to the best of their knowledge, information and belief, having made all reasonable enquires, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as going concern.

The statement of the Company's external auditors, Messrs. Grant Thornton and their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditors' Report on pages 26 and 27.

External Auditors' Remuneration

During the year, the remuneration paid/payable to the Company's external auditors, Messrs. Grant Thornton is set out as follows:

Services rendered for the Group	Fee paid/payable HK'000
Audit services	800

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal controls includes a defined management structure with limit authority, is designed to help the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure the maintenance of proper accounting records for the provisions of reliable financial information for internal use or for publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather that eliminate risks of failure in operational systems and achievement of the Group's objectives. The Board has started to conduct review of the system of internal control of the Group during the year ended 31 December 2008.

Nomination Committee

The Nomination Committee has been established since June 2005. It currently consists of three members, including Mr. Yip King Keung, Pony (Chairman), Mr. Ma Ving Lung and Ms. Lin Wen Feng, all of whom are INEDs. The Nomination Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

INTERNAL CONTROL *(Continued)*

Nomination Committee *(Continued)*

The major roles and functions of the Nomination Committee are:

(i) to review the structure, size and composition of the Board on a regular basis;

(ii) to review and recommend the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman and the chief executive officer.

COMMUNICATION WITH SHAREHOLDERS

The Board recognizes the importance of good communication with shareholders. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars.

The Company's annual general meeting (the "AGM") is a valuable forum for the Board to communicate directly with the shareholders. The Chairman actively participates in the AGM and personally chairs the meeting to answer any questions from the shareholders. A separate resolution is proposed by the Chairman in respect of each issue to be considered at the AGM. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each propose resolution, voting procedures (including procedures for demanding and conducting a poll) and other relevant information. The Chairman explains the procedures for demanding and conducting a poll again at the beginning of the AGM, and (except where a poll is demanded) reveals how many proxies for and against have been received in respect of each resolution.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the Code of the Stock Exchange but about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders are also welcome to promote our transparency.

On behalf of the Board
Chen Chang Wei
Chairman

Hong Kong, 28 April 2009

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of Hengli Properties Development (Group) Limited
(Formerly known as China Fair Land Holdings Limited)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hengli Properties Development (Group) Limited (the "Company") set out on pages 28 to 101, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	5	**149,029**	136,321
Cost of sales		**(75,750)**	(46,687)
Gross profit		**73,279**	89,634
Other revenue and gains	5	**21,490**	33,360
(Loss)/gain on changes in fair value of investment properties	14	**(22,099)**	622
Selling expenses		**(3,283)**	(2,078)
Administrative expenses		**(40,467)**	(31,548)
Gain on disposals on subsidiaries	42	**30,061**	—
Impairment loss on goodwill	18	**(299,000)**	—
Write down of properties under development	20	**(125,000)**	—
Other operating expenses		**(88,005)**	(4,505)
Finance costs	7	**(102,122)**	(1,532)
(Loss)/profit before income tax	8	**(555,146)**	83,953
Income tax credit/(expense)	9	**25,009**	(57,982)
(Loss)/profit for the year		**(530,137)**	25,971
Attributable to:			
Equity holders of the Company	10	**(503,523)**	18,406
Minority interests		**(26,614)**	7,565
(Loss)/profit for the year		**(530,137)**	25,971
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the year	12		
— Basic		**HK(57.21) cents**	HK6.24 cents
— Diluted		**N/A**	HK6.22 cents

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	14	**23,794**	163,745
Property, plant and equipment	15	**12,731**	47,070
Prepaid lease payments	16	**27,548**	5,093
Available-for-sale financial assets	17	**2,265**	2,128
Goodwill	18	**95,782**	—
Deferred tax assets	37	**9,358**	26,297
		171,478	244,333
Current assets			
Properties under development	20	**3,166,058**	178,747
Properties held for sale	21	**21,232**	109,358
Account receivables	22	**1,611**	105,761
Prepayments, deposits and other receivables	23	**172,189**	99,951
Prepaid lease payments	16	**78**	95
Due from an equity holder	24	**35,683**	—
Due from holding company of an equiy holder	24	**519**	—
Due from a minority equity holder of a subsidiary	25	**—**	3,511
Due from related companies	26	**21**	383
Loan to a director	27	**327,667**	—
Tax recoverable		**11,763**	—
Cash and bank balances	28	**89,133**	23,864
		3,825,954	521,670
Current liabilities			
Account payables	29	**187,796**	28,339
Deposits received, accrued expenses and other payables	30	**334,972**	90,255
Due to holding company of an equity holder	24	**—**	9,591
Due to minority equity holders of subsidiaries	31	**12,283**	6,867
Due to a related company	32	**3,398**	—
Due to directors	33	**18,889**	503
Promissory notes	34	**108,691**	—
Bank borrowings	35	**168,691**	466
Provision for tax		**84,228**	194,133
		918,948	330,154

As at 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Net current assets		**2,907,006**	191,516
Total assets less current liabilities		**3,078,484**	435,849
Non-current liabilities			
Bank borrowings	35	**725,005**	63,829
Convertible bonds	36	**1,178,409**	—
Deferred tax liabilities	37	**950,278**	14,682
		2,853,692	78,511
Net assets		**224,792**	357,338
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	38	**109,251**	29,633
Reserves		**26,691**	264,755
		135,942	294,388
Minority interests		**88,850**	62,950
Total equity		**224,792**	357,338

Mr. Chen Chang Wei
Director

Ms. Chan Sheung Ni
Director

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	—	4
Investments in subsidiaries	19	**1,705,241**	128,074
		1,705,241	128,078
Current assets			
Deposits and other receivables	23	**4,604**	7,552
Due from subsidiaries	19	**69,435**	67,970
Due from an equity holder	24	**35,683**	—
Due from related companies	26	**21**	18
Cash and bank balances	28	**6**	—
		109,749	75,540
Current liabilities			
Accrued expenses and other payables	30	**972**	2,550
Due to holding company of an equity holder	24	**2,307**	55,962
Due to subsidiaries	19	**10,701**	11,160
Due to a director	33	**15,051**	—
Promissory notes	34	**108,691**	—
Bank borrowings	35	—	466
		137,722	70,138
Net current (liabilities)/assets		**(27,973)**	5,402
Total assets less current liabilities		**1,677,268**	133,480
Non-current liabilities			
Convertible bonds	36	**1,178,409**	—
Net assets		**498,859**	133,480
EQUITY			
Share capital	38	**109,251**	29,633
Reserves	40(b)	**389,608**	103,847
Total equity		**498,859**	133,480

Mr. Chen Chang Wei
Director

Ms. Chan Sheung Ni
Director

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from operating activities			
(Loss)/profit before income tax		**(555,146)**	83,953
Adjustments for:			
Bank interest income	5	**(999)**	(1,180)
Interest income from loan to a director	5	**(9,870)**	—
Amortisation of prepaid lease payments	8	**160**	95
Depreciation of property, plant and equipment	8	**4,381**	5,194
Loss on disposals of property, plant and equipment	8	**22**	—
Property, plant and equipment written off	8	**34**	—
Provision for impairment on account receivables	8	**73,325**	4,505
Provision for impairment on other receivables	8	**8,278**	—
Revaluation deficits on property, plant and equipment	8	**6,346**	—
Interest expense	7	**102,122**	1,532
Loss/(gain) on changes in fair value of investment properties		**22,099**	(622)
Gain on disposals of subsidiaries		**(30,061)**	—
Impairment loss on goodwill		**299,000**	—
Write down of properties under development		**125,000**	—
Operating profit before working capital changes		**44,691**	93,477
Increase in properties under development		**(321,713)**	(6,918)
(Increase)/decrease in properties held for sale		**(538)**	15,281
Increase in account receivables		**(14,468)**	(77,409)
Increase in prepayments, deposits and other receivables		**(97,256)**	(19,746)
Decrease/(increase) in amounts due from a minority equity holder of a subsidiary		**3,005**	(3,511)
Increase/(decrease) in account payables		**66,368**	(6,870)
Increase/(decrease) in deposits received, accrued expenses and other payables		**223,961**	(9,148)
Cash used in operations		**(95,950)**	(14,844)
Interest paid		**(54,654)**	(3,306)
Income tax paid		**(743)**	(5,909)
Net cash used in operating activities		**(151,347)**	(24,059)
Cash flows from investing activities			
Interest received		**999**	1,180
Purchase of property, plant and equipment		**(265)**	(6)
Proceeds from disposals of property, plant and equipment		**2**	—
Additions of investment properties		**(2,632)**	—
Acquisition of subsidiaries	41	**7,902**	—
Disposals of subsidiaries	42	**12,804**	—
Net cash generated from investing activities		**18,810**	1,174

For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Cash flows from financing activities			
Dividends paid to minority equity holders of a subsidiary		**(7,396)**	(6,978)
Proceeds from exercise of share options		**—**	1,342
Capital contributions by minority equity holders of subsidiaries		**—**	1,302
Repayments to equity holder		**(10,110)**	(425)
Advances from minority equity holders of subsidiaries		**2,340**	225
Advances from/(repayments) to to related companies		**865**	(320)
(Repayments to)/advances from a director		**(33,117)**	476
Repayments of promissory notes		**(85,000)**	—
Drawdown of bank loans		**350,838**	63,829
Repayments of bank loans		**(25,381)**	(39,988)
Net cash generated from financing activities		**193,039**	19,463
Net increase/(decrease) in cash and cash equivalents		**60,502**	(3,422)
Cash and cash equivalents at 1 January		**23,398**	17,030
Effect of foreign exchange rate changes, net		**5,015**	9,790
Cash and cash equivalents at 31 December		**88,915**	23,398
Analysis of the balances of cash and cash equivalents			
Cash and bank balances		**89,133**	23,864
Bank overdrafts	35	**(218)**	(466)
		88,915	23,398

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company										Minority interests	Total equity
	Share capital	Share premium*	Capital reserve*	Special reserves*	Property, plant and equipment revaluation reserve*	Translation reserve*	Share option reserve*	Convertible bonds equity reserve*	Retained profits/ (accumulated losses)*	Total		
	HK$'000	HK$'000	HK$'000 (note 40(a))	HK$'000 (note 40(a))	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	29,260	33,450	7,324	44,144	1,734	11,265	308	—	129,434	256,919	53,387	310,306
Surplus arising on revaluation of leasehold properties (note 15)	—	—	—	—	8,153	—	—	—	—	8,153	5,375	13,528
Deferred tax effect arising on revaluation of leasehold properties (note 37)	—	—	—	—	(2,038)	—	—	—	—	(2,038)	(1,344)	(3,382)
Effect of decrease in tax rate (note 37)	—	—	—	—	13	—	—	—	—	13	(28)	(15)
Currency translation	—	—	—	—	—	11,593	—	—	—	11,593	3,671	15,264
Net income recognised directly in equity	—	—	—	—	6,128	11,593	—	—	—	17,721	7,674	25,395
Profit for the year	—	—	—	—	—	—	—	—	18,406	18,406	7,565	25,971
Total recognised income and expense for the year	—	—	—	—	6,128	11,593	—	—	18,406	36,127	15,239	51,366
Capital contributions by minority equity holders of a subsidiary	—	—	—	—	—	—	—	—	—	—	1,302	1,302
Exercise of share options	373	1,258	—	—	—	—	(289)	—	—	1,342	—	1,342
Lapsed share options under share option scheme	—	—	—	—	—	—	(19)	—	19	—	—	—
Dividends paid to minority equity holders of subsidiaries	—	—	—	—	—	—	—	—	—	—	(6,978)	(6,978)
At 31 December 2007	29,633	34,708	7,324	44,144	7,862	22,858	—	—	147,859	294,388	62,950	357,338

	Attributable to equity holders of the Company										Minority interests	Total equity
	Share capital HK$'000	Share premium* HK$'000	Capital reserve* HK$'000 (note 40(a))	Special reserves* HK$'000 (note 40(a))	Property, plant and equipment revaluation reserve* HK$'000	Translation reserve* HK$'000	Share option reserve* HK$'000	Convertible bonds equity reserve* HK$'000	Retained profits/ (accumulated losses)* HK$'000	Total HK$'000	HK$'000	HK$'000
At 1 December 2007 and 1 January 2008	29,633	34,708	7,324	44,144	7,862	22,858	–	–	147,859	294,388	62,950	357,338
Deficits arising on revaluation of leasehold properties	–	–	–	–	(9,408)	–	–	–	–	(9,408)	(5,830)	(15,238)
Deferred tax effect arising on revaluation of leasehold properties (note 37)	–	–	–	–	2,413	–	–	–	–	2,413	1,473	3,886
Currency translation	–	–	–	–	–	9,881	–	–	–	9,881	4,012	13,893
Net income/(expense) recognised directly in equity	–	–	–	–	(6,995)	9,881	–	–	–	2,886	(345)	2,541
Loss for the year	–	–	–	–	–	–	–	–	(503,523)	(503,523)	(26,614)	(530,137)
Total recognised income and expense for the year	–	–	–	–	(6,995)	9,881	–	–	(503,523)	(500,637)	(26,959)	(527,596)
Issue of convertible bonds (note 36)	–	–	–	–	–	–	–	157,393	–	157,393	–	157,393
Exercise of convertible bonds (note 36)	68,200	112,995	–	–	–	–	–	(19,866)	–	161,329	–	161,329
Issue of shares (note 38 (a))	11,418	44,528	–	–	–	–	–	–	–	55,946	–	55,946
Arising from acquisition of subsidiaries (note 41)	–	–	–	–	–	–	–	–	–	–	75,551	75,551
Arising from disposals of subsidiaries (note 42)	–	–	–	–	–	(28,191)	–	–	–	(28,191)	(15,296)	(43,487)
Release of capital reserve upon disposals of subsidiaries	–	–	(4,286)	–	–	–	–	–	–	(4,286)	–	(4,286)
Dividends paid to minority equity holders of a subsidiary	–	–	–	–	–	–	–	–	–	–	(7,396)	(7,396)
At 31 December 2008	109,251	192,231	3,038	44,144	867	4,548	–	137,527	(355,664)	135,942	88,850	224,792

* These reserve accounts comprise the consolidated reserves of HK$26,691,000 (2007: HK$264,755,000) in the consolidated balance sheet.

1. GENERAL INFORMATION

Hengli Properties Development (Group) Limited (the "Company") (formerly known as China Fair Land Holdings Limited) is a limited liability company incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and, its principal place of business is in the People's Republic of China (the "PRC"). The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK").

On 21 July 2008, the Company announced that the name of the Company has been changed from "China Fair Land Holdings Limited正輝中國集團有限公司" to "Hengli Properties Development (Group) Limited" with effect from 9 June 2008 and adopted "恒力房地產發展(集團)有限公司" as its secondary name with effect from 10 June 2008.

The principal activities of the Company and its subsidiaries (the "Group") have not changed during the year and include the property letting, sales of land use rights and developed properties and investment holding.

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 28 April 2009.

2. ADOPTION OF NEW OR AMENDED HKFRSs

In the current year, the Group has applied for the first time the following new or amended standards and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements during the year.

HK (IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HKAS 39 (Amendments)	Reclassification of Financial Assets

The new HKFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

At the date of authorisation of these financial statements, the following new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

HKAS 1 (Revised)	Presentation of Financial Statements [1]
HKAS 23 (Revised)	Borrowing Costs [1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [2]
HKAS 28	Investments in Associates — Consequential Amendments Arising From Amendments to HKFRS 3 [2]
HKAS 31	Interests in Joint Ventures — Consequential Amendments Arising from Amendments to HKFRS 3 [2]
HKAS 32, HKAS 39 & HKFRS 7 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation [1]
HKAS 39 (Amendment)	Eligible Hedged Items [2]
HKFRS 1 (Revised)	First-time Adoption of Hong Kong Financial Reporting Standards [2]
HKFRS 1 and HKAS 27 (Amendment)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate [1]
HKFRS 2 (Amendment)	Share-based Payment — Vesting Conditions and Cancellations [1]
HKFRS 3 (Revised)	Business Combinations [2]
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments [1]
HKFRS 8	Operating Segments [1]
HK(IFRIC) — Int 2 (Amendment)	Members' Shares in Co-operative Entities and Similar Instruments [1]
HK (IFRIC) — Int 9 (Amendment)	Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement — Embedded Derivatives [6]
HK(IFRIC) — Int 13	Customer Loyalty Programmes [3]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate [1]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation [4]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners [2]
HK(IFRIC) — Int 18	Transfer of Assets from Customers [2]
Various	Annual Improvements to HKFRS 2008 [5]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific HKFRS
6 Effective for annual period ending on or after 30 June 2009

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, HKAS 1 (Revised) "Presentation of Financial Statements" is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, HKFRS 8 "Operating Segments" may result in new or amended disclosures. The directors are in the process of identifying reportable operating segments as defined in HKFRS 8.

The directors are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors have preliminarily concluded that the initial application of these HKFRSs is unlikely to have a significant impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of presentation and preparation

The financial statements have been prepared on a going concern basis despite the Group incurred net loss of HK$503,523,000 attributable to the equity holders of the Company for the year ended 31 December 2008 and the Company had net current liabilities of HK$27,973,000 as at 31 December 2008. In the opinion of the directors, the Company will have sufficient cash resources to satisfy its future working capital and other financing requirements, after taking into consideration on undertaking made by Mr. Chen Chang Wei, a director and substantial shareholder of the Company, (i) irrevocably and unconditionally to provide continual financial support to the Company and to the Group so as to enable them to meet their obligations and liabilities as and when they fall due and to continue their day-to-day business operations as a viable going concern for the period at least up to 31 December 2009; and (ii) not to demand repayment for both the promissory notes issued to him by the Company and other amounts receivable from the Group for the period at least up to 31 December 2009 unless the board of directors of the Company considers that such repayment will not affect the Company and the Group to meet their obligations and liabilities as and when they fall due and to continue their day-to-day business operations as a viable going concern.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.1 Basis of presentation and preparation *(Continued)*

Should the Group or the Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to reclassify non-current assets as current assets and non-current liabilities as current liabilities, and to provide for any further liabilities which might arises.

The financial statements on pages 28 to 101 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the SEHK ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties and leasehold properties which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (see note 3.3 below) made up to 31 December each year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial starements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.4 Foreign currencies translation

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.5 Revenue recognition

Revenue arising from the sale of properties held for sale is recognised upon the properties have been delivered to the purchasers and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated balance sheet under customers' deposits received.

Sale of land use rights is recognised when the title has passed or when the sale contracts signed become unconditional, whichever is earlier.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Revenue recognition *(Continued)*

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.6 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

3.7 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary.

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.11).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.9 Property, plant and equipment

Leasehold properties are stated at revalued amounts, being fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses.

Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of leasehold properties is credited to the property, plant and equipment revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.11. To the extent that any decrease has previously been recognised in consolidated income statement, a revaluation increase is credited to consolidated income statement with the remaining part of the increase dealt with in the property, plant and equipment revaluation reserve. A decrease in net carrying amount of leasehold properties arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same asset and the remaining decrease recognised in consolidated income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.9 Property, plant and equipment *(Continued)*

Depreciation on other assets is provided to write off the cost or revalued amounts, less their estimated residual values, over their estimated useful lives, using straight-line method, as follows:

Leasehold improvements	5 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	5 to 10 years
Plant and machinery	10 years
Motor vehicles	5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement. Any revaluation surplus remaining in equity is transaction to retained profits/accumulated losses on the disposal of leasehold properties.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

3.10 Prepaid lease payments

Prepaid lease payments represent up-front payments to acquire long term interest in the usage of land. They are stated at cost and charge to income statement over the remaining period of the lease on a straight-line basis net of any impairment losses.

3.11 Impairment of non-financial assets

Goodwill arising on an acquisition of subsidiary, property, plant and equipment and investments in subsidiaries, are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.9 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Impairment of non-financial assets *(Continued)*

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognised in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.12 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(a) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the exception of property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.8).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Leases *(Continued)*

(b) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

(c) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.13 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below. Financial assets are classified into loans and receivables and available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(b) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

Impairment of financial assets

At each balance sheet date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

— Significant financial difficulty of the debtor;

— A breach of contract, such as default or delinquency in interest or principal payments;

— It becoming probable that the debtor will enter bankruptcy or other financial reorganization;

— Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

— A significant or prolonged decline in the fair value of an investment in an equity instrument below its costs.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(a) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

(b) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in profit or loss.

(c) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available for sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.14 Properties under development

Properties under development for future sale in the ordinary course of business, are included in current assets and stated at the lower of cost and net realisable value. Cost comprises the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (note 3.6).

Net realisable value is the estimated selling price in the ordinary course of business less estimated cost of completion and estimated selling expenses.

No depreciation is provided on properties under development.

On completion, the properties are transferred to properties held for sale.

3.15 Properties held for sale

In case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. The cost of completed properties held for sale comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Properties held for sale are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.16 Accounting for income taxes *(Continued)*

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.17 Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Retirement benefit costs and short term employee benefits

Defined contribution plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

3.20 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Share-based employee compensation *(Continued)*

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (share option reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits/ accumulated losses.

3.21 Financial liabilities

The Group's financial liabilities include account and other payables, amounts due to an equity holder, minority equity holders of subsidiaries, a related company and directors, bank borrowings, promissory notes and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Financial liabilities *(Continued)*

Trade and other payables

Account and other payables, amounts due to an equity holder, minority equity holders of subsidiaries, a related company and directors are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Convertible bonds

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included in equity as convertible bond equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bond equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bond equity reserve is released directly to accumulated losses.

Promissory notes

Promissory notes are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Provisions and contingencies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisaton, if appropriate.

3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.24 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segments. Segment assets consist primarily of investment properties, property, plant and equipment, properties under development, properties held for sale, receivables and operating cash, and mainly exclude corporate assets and available-for-sale investment. Segment liabilities comprise operating liabilities and exclude items such as provision for tax and certain corporate borrowings.

Capital expenditure comprises additions to investment properties and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.25 Related parties

For the purpose of these financial statements, a party is considered to be related to the Group if:

(a) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(b) the Group and the party are subject to common control;

(c) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(d) the party is a member of the key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such indiviudals;

(e) the party is a close member of the family of a party referred to in (a) or is an entity under the control, joint control or significant influence of such individuals; or

(f) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Closed family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated impairment on goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

If the actual growth rate had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

(b) Valuation of convertible bonds

The directors use their judgement in selecting an appropriate valuation technique for the Group's convertible bonds which are not quoted in the active market. Valuation techniques commonly used by market practitioners are applied. The fair value of convertible bonds is estimated by Savills Valuation and Professional Services Limited ("Savills"), a firm of independent professional valuers based on actual transactions of the financial instruments in the market or transactions of similar financial instruments which generally represent the best estimate of the market value. The fair value of convertible bonds varies with different variable certain subjective assumptions. Any change in these variables so adopted may materially affect the estimation of the fair value of convertible bonds.

(c) PRC Enterprise Income Tax ("EIT")

The Group's subsidiaries in the PRC is subject to the PRC EIT. Significant judgement is required in determining the provision for EIT. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provision in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(d) Investment properties and leasehold properties

The investment properties and leasehold properties of the Group were stated at fair value in accordance with the accounting policy stated in notes 3.8 and 3.9 respectively. The fair value of the investment properties and leasehold properties are determined by Savills and RHL Appraisal Limited ("RHL"), another firm of independent professional valuers, and the fair value of investment properties and leasehold properties as at respective year end were set out in notes 14 and 15 respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(e) Properties held for sale

Properties held for sale are valued using the cost method, which value properties held for sale at the lower of cost or net realisable value. Cost is determined using the weighted average method. The estimated net realisable value is generally market price less selling expenses. Provision is made when net realisable value of properties held for sale is assessed to be below cost. This assessment requires the use of estimates.

(f) Land Appreciation Tax ("LAT")

The Group is subject to LAT in the PRC. However, the implementation and settlement of this tax varies among various tax jurisdictions in cities of the PRC, and the Group has not finalised its LAT calculation and payments with any local tax authorities in the PRC. Accordingly, significant judgement is required in determining the amount of the land appreciation and its related LAT. The Group recognised LAT based on management's best estimates according to the understanding of the tax rules.

(g) Estimated impairment of account receivables and other receivables

Management considered detailed procedures have been in place to monitor the risk that a significant proportion of the Group's working capital is devoted to account receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for account and other receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the consolidated financial statements in light of the historical records of the Group and the circumstances of the industry of sales of land use rights and sales of properties as a whole.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(h) Properties under development

Properties under development are valued using the cost method, which value properties under development at the lower of cost or net realisable value. The estimated net realisable value is generally market price less cost to completion and selling expenses. Provision is made when net realisable value of properties under development is assessed to be below cost. This assessment requires the use of estimates.

4.2 Critical judgements in applying the entity's accounting policies

Revenue recognition

The Group has recognised revenue from sale of properties held for sale during the year as disclosed in note 5. The assessment of when an entity has transferred the significant risks and rewards of ownership to buyer requires examination of the circumstances of the transaction. In most cases, the transfer of risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the buyer or a completion certificate is issued by the relevant government authorities. The Group believes that its recognition basis of sales as set out in note 3.5 is appropriate and is the current practice in the PRC.

5. REVENUE AND OTHER REVENUE AND GAINS

Revenue, which is also the Group's turnover, and other revenue and gains recognised during the year are as follows:

	2008 **HK$'000**	2007 HK$'000
Revenue		
Property letting	**18,683**	18,540
Sale of land use rights	**128,957**	84,906
Sale of developed properties	**1,389**	32,875
	149,029	136,321
Other revenue and gains		
Bank interest income	**999**	1,180
Compensation received on return (net of costs incurred) of land use rights	**—**	21,755
Exchange gains, net	**7,824**	7,692
Loan interest income from a director	**9,870**	—
Others	**2,797**	2,733
	21,490	33,360

6. SEGMENT INFORMATION

Primary reporting segment — business segments

The Group's principal activities are property letting, sale of land use rights and sale of developed properties. These three business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

2008

	Property letting HK$'000	Sale of land use rights HK$'000	Sale of developed properties HK$'000	Group HK$'000
Revenue	18,683	128,957	1,389	149,029
Segment results	(9,656)	23,253	(432,964)	(419,367)
Unallocated income				21,490
Unallocated expenses				(55,147)
Finance costs				(102,122)
Loss before income tax				(555,146)
Income tax credit				25,009
Loss for the year				(530,137)
Segments assets	23,794	1,566	3,479,328	3,504,688
Unallocated assets				492,744
Total assets				3,997,432
Segment liabilities	—	—	477,226	477,226
Unallocated liabilities				3,295,414
Total liabilities				3,772,640
Capital expenditure	2,632	—	3,107	5,739
Depreciation	—	—	4,292	4,292
Unallocated portion				89
Total depreciation				4,381
Amortisation charges	—	—	160	160
Impairment loss on goodwill	—	—	299,000	299,000
Other non-cash expenses	43,431	42,481	140,882	226,794
Unallocated portion				8,310
Total other non-cash expenses				235,104

6. SEGMENT INFORMATION *(Continued)*

Primary reporting segment — business segments *(Continued)*

2007

	Property letting HK$'000	Sale of land use rights HK$'000	Sale of developed properties HK$'000	Group HK$'000
Revenue	18,540	84,906	32,875	136,321
Segment results	18,626	61,476	29,766	109,868
Unallocated income				11,605
Unallocated expenses				(35,988)
Finance costs				(1,532)
Profit before income tax				83,953
Income tax expense				(57,982)
Profit for the year				25,971
Segments assets	179,313	58,737	412,742	650,792
Unallocated assets				115,211
Total assets				766,003
Segment liabilities	—	—	118,594	118,594
Unallocated liabilities				290,071
Total liabilities				408,665
Capital expenditure (unallocated portion)				6
Depreciation	176	—	5,009	5,185
Unallocated portion				9
Total depreciation				5,194
Amortisation charges	—	—	95	95
Other non-cash expenses	—	772	3,733	4,505

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting segment — geographical segments

All of the Group's revenue for both years was generated in the PRC and over 90% (2007: over 90%) of the Group's segment assets were located in the PRC. Accordingly, no geographical segment information is presented.

7. FINANCE COSTS

	2008 **HK$'000**	2007 HK$'000
Interest charges on financial liabilities stated at amortised cost:		
Bank loans and overdrafts		
— wholly repayable within five years	**48,627**	2,691
— wholly repayable over five years	**4,864**	—
Amounts due to minority equity holders of subsidiaries wholly repayable within five years	**—**	615
Interest expenses on convertible bonds (note 36)	**88,323**	—
Interest expenses on promissory notes (note 34)	**8,205**	—
Other interest expenses	**1,163**	—
	151,182	3,306
Less: interest capitalised included in properties under development	**(49,060)**	(1,774)
	102,122	1,532

The borrowing costs have been capitalised at rates ranging from 7.02% to 7.74% per annum during the year (2007: 6.35%).

8. (LOSS)/PROFIT BEFORE INCOME TAX

	2008 HK$'000	2007 HK$'000
(Loss)/profit before income tax is arrived at after charging/(crediting):		
Staff costs		
— directors' remuneration (note 13)	**4,216**	3,559
— retirement benefits scheme contributions	**678**	455
— staff welfare	**528**	1,747
— other staff costs	**12,031**	6,332
Total staff costs	**17,453**	12,093
Cost of development properties recognised as expense	**75,750**	46,689
Depreciation of property, plant and equipment	**4,381**	5,194
Operating lease charges in respect of		
— land and buildings	**390**	887
— office equipment	**3**	10
— prepaid lease payments	**160**	95
Auditors' remuneration		
— current year	**800**	782
— underprovision in respect of prior years	**100**	—
Property, plant and equipment written off *	**34**	—
Loss on disposals of property, plant and equipment*	**22**	—
Revaluation deficits on property, plant and equipment *	**6,346**	—
Provision for impairment on account receivables*	**73,325**	4,505
Provision for impairment on other receivables*	**8,278**	—
Outgoings in respect of investment properties	**286**	556
Rental income less outgoings	**(18,683)**	(18,004)

Depreciation of property, plant and equipment has been expensed in administrative expenses.

* These expenses are included in other operating expenses on the face of the consolidated income statement.

9. INCOME TAX (CREDIT)/EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising from or derived in Hong Kong for both years. The EIT and LAT are calculated at rates applicable to respective subsidiaries of the Company.

	2008 HK$'000	2007 HK$'000
Current tax — PRC		
— EIT	16,658	26,709
— LAT	20,611	33,057
— Underprovision of LAT in respect of prior years	—	6,801
	37,269	66,567
Deferred tax (note 37)		
Current year	(62,278)	(10,022)
Attributable to change in tax rate	—	1,437
	(62,278)	(8,585)
Total income tax (credit)/expense	(25,009)	57,982

9. INCOME TAX (CREDIT)/EXPENSE *(Continued)*

Reconciliation between tax (credit) expense and accounting (loss)/profit at applicable tax rates:

	2008 HK$'000	2007 HK$'000
(Loss)/profit before income tax	**(555,146)**	83,953
Tax at PRC EIT rate of 25% (2007: 33%)	**(138,787)**	27,705
Tax effect of non-deductible expenses	**151,834**	3,584
Tax effect of non-taxable revenue	**(10,405)**	(5,663)
Tax effect of unrecognised tax losses	**2,202**	1,572
Effect of different tax rates of subsidiaries operating in the other jurisdictions	**6,289**	(862)
LAT	**(48,189)**	33,057
Underprovision of LAT in respect of prior years	**—**	6,801
Tax effect of LAT	**12,047**	(9,964)
Tax effect of lower tax rate used for the recognition of deferred tax	**—**	1,437
Others	**—**	315
Income tax (credit) expense	**(25,009)**	57,982

10. LOSS/PROFIT FOR THE YEAR ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company of HK$503,523,000 (2007: profit of HK$18,406,000), a loss of HK$5,003,000 (2007: HK$7,870,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

No dividends are attributable to the previous financial year, approved and paid during the year (2007: Nil).

12. LOSS/EARNINGS PER SHARE

(a) Basic

The calculation of basic loss/earnings per share is based on the loss attributable to equity holders of the Company of HK$503,523,000 (2007: profit of HK$18,406,000) and on the weighted average of 880,167,742 (2007: 294,841,945) ordinary shares in issue during the year.

12. (LOSS)/EARNINGS PER SHARE *(Continued)*

(b) Diluted

The diluted loss per share for the year ended 31 December 2008 is not presented as the potential ordinary shares had anti-dilutive effect on loss per share.

The calculation of diluted earnings per share for the year ended 31 December 2007 was based on the profit attributable to equity holders of the Company of HK.$18,406,000. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 294,841,945 ordinary shares in issue during the year plus the weighted average of 1,070,786 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Details of directors' remuneration on a named basis are as follows:

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Retirement benefits costs HK$'000	Total HK$'000
2008				
Executive directors				
Mr. So Pang Gen (i)	—	286	—	286
Mr. Chen Chang Wei (ii)	—	1,260	—	1,260
Mr. Chim Kim Lun, Ricky (iii)	—	—	—	—
Ms. Chan Sheung Ni (ii)	—	300	—	300
Ms. Chen Dong Xue (ii)	—	458	—	458
Mr. Wong Hing Ting, James (ii)	—	1,280	—	1,280
Mr. Yong Kai Man (iii)	—	—	—	—
Mr. Choi Dun Woo (iii)	—	347	2	349
Independent non-executive directors				
Ms. Lin Wen Feng	97	—	—	97
Mr. Ma Ving Lung	109	—	—	109
Mr. Yip King Keung, Pony (ii)	77	—	—	77
	283	3,931	2	4,216

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Retirement benefits costs HK$'000	Total HK$'000
2007				
Executive directors				
Mr. So Pang Gen	—	1,808	—	1,808
Mr. Lam Hon-Keung, Keith (iv)	—	150	—	150
Mr. Choi Dun Woo	—	828	12	840
Mr. Su Bangyuan (iv)	—	550	11	561
Mr. Chim Kim Lun, Ricky	—	—	—	—
Mr. Yong Kai Man	—	—	—	—
Independent non-executive directors				
Mr. Hui Yip Wing, David (iv)	80	—	—	80
Mr. Kee Wah Sze (iv)	60	—	—	60
Mr. Ku Siu Fung, Stephen (iv)	60	—	—	60
Ms. Lin Wen Feng	—	—	—	—
Mr. Ma Ving Lung	—	—	—	—
	200	3,336	23	3,559

(i) Resigned as an executive director with effect from 1 July 2008 and re-designated as a non-executive director of the Company on the same date.

(ii) Appointed during the year ended 31 December 2008.

(iii) Resigned during the year ended 31 December 2008.

(iv) Resigned during the year ended 31 December 2007.

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2008 and 2007.

13. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

For the year ended 31 December 2008, the five highest paid individuals of the Group included four directors (2007: four directors), details of which are included above. The emoluments of the remaining one highest paid individual (2007: one individual) is as follows:

	2008 HK$'000	2007 HK$'000
Salaries, allowances and other benefits	**463**	258
Performance related incentive payments	**—**	10
	463	268

The emoluments of the remaining one individual (2007: one individual) fall within the band of nil to HK$1,000,000.

HK$200,000 was paid by the Group to one director or highest paid individual as an inducement to join or upon joining the Group or as compensation for loss of office (2007: Nil).

14. INVESTMENT PROPERTIES — GROUP

All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment properties.

Changes to the carrying amount presented in the balance sheet can be summarised as follows:

	2008 HK$'000	2007 HK$'000
Carrying amount at 1 January	**163,745**	154,220
Additions	**2,632**	—
Currency realignment	**9,154**	8,903
Disposals of subsidiaries (note 42)	**(129,638)**	—
(Loss)/gain on changes in fair value	**(22,099)**	622
Carrying amount at 31 December	**23,794**	163,745

14. INVESTMENT PROPERTIES — GROUP *(Continued)*

The Group's interests in investment properties at their carrying amount are analysed as follows:

	2008 **HK$'000**	2007 HK$'000
Under long term leases	—	25,904
Under medium term leases	**23,794**	137,841
Carrying amount at 31 December	**23,794**	163,745

The Group's investment properties are situated in the PRC and majority of the investment properties are rented out under operating leases. No income or direct operating expenses were recognised during the years ended 31 December 2007 and 2008 for investment property that was unlet.

The investment properties were revalued on market value basis at 31 December 2008 by Savills. The market value which would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

The decrease in fair value of investment properties of approximately HK$22,099,000 (2007: increase of HK$622,000) has been charged (2007: credited) to the consolidated income statement.

At 31 December 2008, certain investment properties with aggregate net carry amount of approximately HK$23,794,000 (2007: Nil) were pledged to secure bank loans of the Group (note 35). The pledge will be released upon repayment of the bank loans.

15. PROPERTY, PLANT AND EQUIPMENT — GROUP AND COMPANY

Group

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2007						
Cost or valuation	44,462	—	2,940	294	3,936	51,632
Accumulated depreciation	(10,041)	—	(1,806)	(122)	(2,995)	(14,964)
Net book amount	34,421	—	1,134	172	941	36,668
Year ended 31 December 2007						
Opening net book amount	34,421	—	1,134	172	941	36,668
Currency realignment	1,930	—	64	11	57	2,062
Additions	—	—	6	—	—	6
Revaluation	13,528	—	—	—	—	13,528
Depreciation	(4,688)	—	(340)	(14)	(152)	(5,194)
Closing net book amount	45,191	—	864	169	846	47,070
At 31 December 2007 and 1 January 2008						
Cost or valuation	60,634	—	3,130	313	4,187	68,264
Accumulated depreciation	(15,443)	—	(2,266)	(144)	(3,341)	(21,194)
Net book amount	45,191	—	864	169	846	47,070
Year ended 31 December 2008						
Opening net book amount	**45,191**	**—**	**864**	**169**	**846**	**47,070**
Currency realignment	**2,081**	**—**	**54**	**11**	**64**	**2,210**
Additions	**50**	**17**	**198**	**—**	**—**	**265**
Disposals	**—**	**—**	**—**	**—**	**(24)**	**(24)**
Written off	**—**	**—**	**(34)**	**—**	**—**	**(34)**
Acquisition of subsidiaries (note 41)	**1,800**	**101**	**159**	**—**	**782**	**2,842**
Disposals of subsidiaries (note 42)	**(12,156)**	**—**	**(701)**	**(167)**	**(609)**	**(13,633)**
Revaluation	**(21,584)**	**—**	**—**	**—**	**—**	**(21,584)**
Depreciation	**(3,843)**	**(35)**	**(170)**	**(13)**	**(320)**	**(4,381)**
Closing net book amount	**11,539**	**83**	**370**	**—**	**739**	**12,731**
At 31 December 2008						
Cost or valuation	**13,722**	**119**	**692**	**—**	**2,450**	**16,983**
Accumulated depreciation	**(2,183)**	**(36)**	**(322)**	**—**	**(1,711)**	**(4,252)**
Net book amount	**11,539**	**83**	**370**	**—**	**739**	**12,731**

15. PROPERTY, PLANT AND EQUIPMENT — GROUP AND COMPANY *(Continued)*

Group *(Continued)*

The Group's leasehold properties are situated in the PRC and in Hong Kong and were revalued at 31 December 2008 at the aggregate value of HK$11,539,000 (2007: HK$45,191,000) by Savills and RHL respectively. Savills adopted on a market value basis or a depreciated replacement cost basis for leasehold properties situated in the PRC. For leasehold properties situated in Hong Kong, RHL adopted the direct comparison method where comparison based on price information of comparable properties is made. The valuation has been made on the assumption that the owner sells the property in the market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement arrangements which would serve to affect the value. The revaluation deficits of approximately HK$15,238,000 (2007: surplus of HK$13,528,000) and HK$6,346,000 (2007: Nil) have been charged to the property, plant and equipment revaluation reserve and consolidated income statement, respectively.

If leasehold properties had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK$7,797,000 (2007: HK$32,661,000).

At 31 December 2007, the building ownership certificates of certain leasehold properties of approximately HK$31,420,000 had not yet been obtained. In the opinion of the independent PRC legal advisors of the Group, the Group is entitled to obtain the building ownership certificates without legal impediment. The subsidiaries holding such leasehold properties have been disposed of during the year.

The analysis of the cost or valuation of the above assets is as follows:

	Leasehold properties HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2007						
— at cost	—	—	3,130	313	4,187	7,630
— at valuation	60,634	—	—	—	—	60,634
	60,634	—	3,130	313	4,187	68,264
At 31 December 2008						
— at cost	**—**	**119**	**692**	**—**	**2,450**	**3,261**
— at valuation	**13,722**	**—**	**—**	**—**	**—**	**13,722**
	13,722	**119**	**692**	**—**	**2.450**	**16,983**

At 31 December 2008, certain leasehold properties with net carrying amount of approximately HK$1,522,000 (2007: Nil) were pledged to secure bank loans of the Group (note 35).

15. PROPERTY, PLANT AND EQUIPMENT — GROUP AND COMPANY *(Continued)*

Company

	Furniture, fixtures and equipment HK$'000
At 1 January 2007	
Cost	64
Accumulated depreciation	(51)
Net book amount	13
Year ended 31 December 2007	
Opening net book amount	13
Depreciation	(9)
Closing net book amount	4
At 31 December 2007 and 1 January 2008	
Cost	64
Accumulated depreciation	(60)
Net book amount	4
Year ended 31 December 2008	
Opening net book amount	4
Written off	(3)
Depreciation	(1)
Closing net book amount	—
At 31 December 2008	
Cost	—
Accumulated depreciation	—
Net book amount	—

16. PREPAID LEASE PAYMENTS — GROUP

The Group's interests in land use rights represent prepaid operating lease payments and are held under long term leases in the PRC and HK.

	2008 HK$'000	2007 HK$'000
Opening net carrying amount	**5,188**	4,967
Currency realignment	**334**	316
Acquisition of subsidiaries (note 41)	**25,200**	—
Disposals of subsidiaries (note 42)	**(2,936)**	—
Amortisation charges of prepaid lease payments	**(160)**	(95)
Closing net carrying amount	**27,626**	5,188
Current portion	**(78)**	(95)
Non-current portion	**27,548**	5,093

At 31 December 2008, the Group's interests in land use rights at the net book amount of HK$8,185,000 (2007: Nil) were pledged to secure bank loans of the Group (note 35).

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS — GROUP

	2008 HK$'000	2007 HK$'000
Unlisted investment, at cost		
Opening carrying amount	**2,128**	2,000
Currency realignment	**137**	128
Closing carrying amount	**2,265**	2,128

The investment represents the Group's interest in unlisted equity holding in 中國房地產開發集團投資有限公司 (the "Investee"), a company established in the PRC. The Group held a 2% effective equity interest in the Investee. The available-for-sale financial assets are measured at cost less impairment at each balance sheet date because the Investee is a private company with no open market quoted price. Accordingly, the directors of the Company are of the opinion that fair value cannot be reliably measured. The Group has no information to dispose of the interest in the Investee in the foreseeable future.

18. GOODWILL — GROUP

	HK$'000
Cost and carrying amount at 1 January 2008	—
Acquisition of subsidiaries (note 41)	394,782
Impairment loss	(299,000)
Net carrying amount at 31 December 2008	95,782

The recoverable amounts for the cash generating units given above were determined based on value-in-use calculations using cash flow projection based on business plan of property development, covering a detailed 6-year budget plan which represents the business cycle and strategic plan of the Group's sale of developed properties segment, estimated by the management with reference to the valuation performed by Savills and followed by an extrapolation of expected cash flows at the growth rates ranging from 3% to 5% and discount rate of 11.5%. In determining discount rate, the Capital Assets Pricing Model ("CAPM") was used. Under CAPM, the appropriate expected rate of return is the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed.

The management's key assumptions, include stable profit margins, which have been determined based on past performance and its expectations for market share after taking into consideration published market forecast and research. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segments.

The related goodwill impairment loss on goodwill of HK$299,000,000 was separately presented in the consolidated income statement and attributable to the Group's sale of developed properties segment, which is mainly caused by the downturn of the PRC property market.

Apart from the considerations described in determining the value-in-use of the cash generating units above, the Group's management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

19. INVESTMENTS IN SUBSIDIARIES — COMPANY

	2008 **HK$'000**	2007 HK$'000
Unlisted investments, at cost	**1,705,241**	128,074

The balances with subsidiaries are unsecured, interest-free and repayable on demand.

19. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2008 are as follows:

Name	Place/country of incorporation/ establishment and operations	Particulars of issued/registered capital	Percentage of issued/registered capital held by the Company	Principal activities
China Fair Land (Shenyang) Limited (Formerly known as Hengli Properties Development (Group) Limited)	Hong Kong	Ordinary HK$2	100%	Investment holding
China Fair Land (Suzhou) Limited	Hong Kong	Ordinary HK$2	100%	Investment holding
China Fair Land (Ningbo) Limited ("China Fair Land Ningbo")	Hong Kong	Ordinary HK$2 Non-voting deferred HK$10,000 [2]	100%	Investment holding
Amazing Wise Limited [3]	British Virgin Islands	Ordinary US$10	100%	Investment holding
Dalong Industrial Group Limited [3]	Hong Kong	Ordinary HK$10,000,000	100%	Investment holding
Fujian Zhonglu Real Estate Development (HK) Limited [4]	Hong Kong	Ordinary HK$1,000	100%	Inactive
Flying Hope Investments Limited [4]	British Virgin Islands	Ordinary US$100	100%	Investment holding
Grace Luck (Hong Kong) Limited [4]	Hong Kong	Ordinary HK$1,000	100%	Investment holding
Hengli Capital Management Limited [4]	Hong Kong	Ordinary HK$1	100%	Inactive
Right Strong Holdings Limited [4]	British Virgin Islands	Ordinary US$1	100%	Investment holding
福建中旅房地產開發有限公司 Fujian Zhonglu Real Estate Development Co., Limited ("Fujian Zhonglu) [3]	PRC for a term of 30 years commencing from 1992	RMB129,820,000	95%	Property development
寧波拓展房地產開發有限公司 Ningbo Tuozhan Real Estate Development Co., Ltd. ("Ningbo Tuozhan") [1]	PRC for a term of 30 years commencing from 1989	RMB 20,000,000	37.5% [5]	Property development
寧波市江北眾城房地產開發有限公司	PRC for a term of 10 years commencing from 2004 [1]	RMB10,000,000	33.75% [6]	Property development

19. INVESTMENTS IN SUBSIDIARIES — COMPANY *(Continued)*

Particulars of the Company's subsidiaries at 31 December 2008 are as follows: *(Continued)*

Name	Place/country of incorporation/ establishment and operations	Particulars of issued/registered capital	Percentage of issued/registered capital held by the Company	Principal activities
寧波盛世置業有限公司	PRC for a term of 20 years commencing from 2005	RMB6,000,000	26.25% [7]	Property development
Co-operative joint venture:				
幸福苑合作發展開發項目 Fortune Garden Joint Venture Project [1]	PRC for a period of time to complete the project commencing from 1992	US$12,112,472	65.63%	Property development

1 These are equity joint ventures established in the PRC.

2 The rights and restrictions of the non-voting deferred shares of this subsidiary are set out in paragraph (c) of the section headed "Group reorganisation" in Appendix VI of the prospectus dated 22 May 2002 issued by the Company.

3 Acquired during the year ended 31 December 2008.

4 Incorporated during the year ended 31 December 2008.

5 On 15 September 1995, China Fair Land Ningbo, a wholly-owned subsidiary of the Company, entered into an irrecoverable agreement (the "1995 Agreement") with中國房地產開發公司寧波公司 ("Ningbo CSREDC"), a 25% joint venture owner of Ningbo Tuozhan at the time of the 1995 Agreement. Pursuant to the 1995 Agreement, Ningbo CSREDC agreed to cooperate with China Fair Land Ningbo in the management of Ningbo Tuozhan, including the voting by the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC, and acting-in-concert with the directors appointed by China Fair Land Ningbo.

On 11 May 2001, China Fair Land Ningbo and Ningbo CSREDC entered into a confirmation and agreement (the "2001 Confirmation") confirming that the directors appointed to the board of Ningbo Tuozhan by Ningbo CSREDC since the signing of the 1995 Agreement have always been voting in concert with and in accordance with the instructions of the directors appointed by China Fair Land Ningbo.

In 2003, Ningbo CSREDC transferred its entire 25% equity interest in Ningbo Tuozhan to four of its employees who became the new 25% joint venture owners of Ningbo Tuozhan (the "New 25% Owners"). On 30 September 2003, China Fair Land Ningbo entered into an agreement with the New 25% Owners that the New 25% Owners agreed to continue to cooperate with China Fair Land Ningbo in accordance with the 1995 Agreement and the 2001 Confirmation, including the voting by the directors appointed to the board of Ningbo Tuozhan by the New 25% Owners and acting-in-concert with the directors appointed by China Fair Land Ningbo.

Based on the above-mentioned documents, the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of Ningbo Tuozhan and effectively controls the financial and operating policies of Ningbo Tuozhan. Accordingly, the Company regards Ningbo Tuozhan as a subsidiary and accounts for as such in these financial statements.

6 Ningbo Tuozhan holds 90% equity interest in this company and the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of this company.

7 Ningbo Tuozhan holds 70% equity interest in this company and the Company's directors consider that the Group holds more than one half of the voting power in the board of directors of this company.

20. PROPERTIES UNDER DEVELOPMENT — GROUP

	2008 HK$'000	2007 HK$'000
Carrying amount of leasehold land	**2,771,349**	152,930
Development costs	**451,718**	24,043
Borrowing costs capitalised	**67,991**	1,774
	3,291,058	178,747
Less: Amount written down	**(125,000)**	—
Carrying amount at 31 December	**3,166,058**	178,747

Interest capitalised included in the properties under development for the year ended 31 December 2008 is HK$49,060,000 (2007: HK$1,774,000) (note 7).

The amount of properties under development expected to be transferred to properties held for sale upon completion of development after more than one year is HK$2,775,447,000 (2007: HK$6,874,000). All of the other properties under development are expected to be completed and transferred to properties held for sale within one year.

The properties under development are situated in the PRC and held under the following lease terms:

	2008 HK$'000	2007 HK$'000
Under long term leases	**238,719**	1,611
Under medium term leases	**2,927,339**	177,136
Carrying amount at 31 December	**3,166,058**	178,747

At 31 December 2008, certain properties held under development with net carrying amount of approximately HK$2,686,427,000 (2007: HK$73,365,000) were pledged to secure bank loans of the Group (note 35).

21. PROPERTIES HELD FOR SALE — GROUP

Properties held for sale included leasehold interests in land located in the PRC with lease terms expiring of 70 years.

At 31 December 2007, certain properties held for sales in the carrying amount of HK$5,887,000 were held under the name of Mr. Su Chi Ming ("Mr. CM Su") on behalf of the Group. Mr. CM Su is a brother of Mr. Su Bangyuan, a former director of the Company. On 12 November 2005, the Group entered into an agreement with Mr. CM Su in connection with the execution of the aforesaid agreement (the "CM Su Agreement"). In the opinion of the PRC legal advisors of the Group, the CM Su Agreements is legally binding and enforceable in accordance with the PRC jurisdictions. The Company's subsidiary holding such properties held for sales has been disposed of during the year.

22. ACCOUNT RECEIVABLES — GROUP

An aging analysis of account receivables after impairment provision is as follows:

	2008 **HK$'000**	2007 HK$'000
Within three months	**11**	84,555
Four months to one year	**1,566**	11,460
Between one to two years	**—**	—
Over two years	**34**	9,746
	1,611	105,761

The movement in the provision for impairment on account receivables is as follows:

	2008 **HK$'000**	2007 HK$'000
At 1 January	**6,756**	2,251
Provision for impairment charged to income statement	**73,325**	4,505
Release upon disposals of subsidiaries	**(80,081)**	—
At 31 December	**—**	6,756

There is no concentration of credit risk with respect to account receivables, as the Group has a large number of customers.

The carrying amount of account receivables is considered a reasonable approximation of fair value as this financial asset, which is measured at amortised cost, is expected to be paid within a short timescale, such that the time value of money impact is not significant.

At each balance sheet date, the Group's account receivables are individually reviewed to determine impaired. The amount of impairment loss of individually impaired receivable, if any, is recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. Consequently, specific impairment provision is recognised. During the year ended 31 December 2008, specific impairment provision of HK$73,325,000 has been made (2007: HK$6,756,000).

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables, whether determined on an individual or collective basis.

22. ACCOUNT RECEIVABLES — GROUP *(Continued)*

Aging analysis of account receivables that are not impaired as follows:

	2008 HK$'000	2007 HK$'000
Neither past due nor impaired	**11**	84,555
Not more than 1 year past due	**1,566**	11,460
Over 1 year past due	**34**	9,746
	1,611	105,761

Account receivable that were neither past due nor impaired related to a wide range of customers from whom there was no recent history of default. The Group holds the building ownership certificates for those account receivables past due but not impaired. Management believed that no impairment allowance is necessary in respect of these balances as the Group is able to dispose of the respective properties in the open market.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES — GROUP AND COMPANY

	Group		Company	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Prepayments	**153,649**	76,549	**—**	—
Deposits	**2,901**	266	**—**	228
Other receivables *	**15,639**	23,136	**4,604**	7,324
	172,189	99,951	**4,604**	7,552

During the year ended 31 December 2008, specific impairment provision of HK$8,278,000 has been made (2007: Nil).

* Included in other receivables of the Company and of the Group as at 31 December 2008, approximately HK$3,038,000 (2007: HK$7,324,000) is the estimated amount indemnified by certain beneficial owners of the Company in relation to the LAT attributable to sales of properties before the listing of the Company in the SEHK (note 40(a)).

24. DUE FROM/TO EQUITY HOLDER/HOLDING COMPANY OF AN EQUITY HOLDER — GROUP AND COMPANY

The amounts due are unsecured, interest-free and repayable on demand.

Subsequent to the balance sheet date on 2 February 2009, the amount due from an equity holder were offset against the amount due from holding company of an equity holder as to HK$2,307,000 and amount due to a director (note 33) as to HK$33,376,000.

25. DUE FROM A MINORITY EQUITY HOLDER OF A SUBSIDIARY — GROUP

The amount due was unsecured, interest free and repayable on demand.

26. DUE FROM RELATED COMPANIES — GROUP AND COMPANY

The amounts due are unsecured, interest-free and repayable on demand.

Particulars of amounts due from related companies, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

	China Fair Land (Wuhan) Limited HK$'000	China Fair Land (Tianjin) Limited HK$'000	南京華僑房產開發建設有限公司 HK$'000	Total HK$'000
At 31 December 2008	**6**	**15**	**—**	**21**
At 31 December 2007	6	13	364	383
Maximum amount outstanding during the year ended 31 December 2008	**6**	**15**	**364**	
Maximum amount outstanding during the year ended 31 December 2007	6	13	364	

Company

	China Fair Land (Wuhan) Limited HK$'000	China Fair Land (Tianjin) Limited HK$'000	Total HK$'000
At 31 December 2008	**6**	**15**	**21**
At 31 December 2007	6	12	18
Maximum amount outstanding during the year ended 31 December 2008	**6**	**15**	
Maximum amount outstanding during the year ended 31 December 2007	6	12	

Mr. So Pang Gen, a director of the Company, has beneficial interest in these related companies.

27. LOAN TO A DIRECTOR

The loan to a director of the Company, Mr. Chen Chang Wei, is unsecured, bear interests at 7.74% per annum (2007: Nil) and repayable on 20 June 2009. The maximum outstanding amount during the year is HK$327,667,000.

28. CASH AND BANKS BALANCES — GROUP AND COMPANY

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Included in cash and banks balances of the Group is HK$88,392,000 (2007: HK$23,372,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the PRC. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

29. ACCOUNT PAYABLES — GROUP

The aging analysis of account payables as at 31 December 2008 is as follows:

	2008	2007
	HK$'000	HK$'000
Within three months	**84,927**	—
Four months to one year	**68**	—
Over one year	**102,801**	28,339
	187,796	28,339

30. DEPOSITS RECEIVED, ACCRUED EXPENSES AND OTHER PAYABLES — GROUP AND COMPANY

	Group		**Company**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Customers' deposits received *	**216,761**	1,075	**—**	—
Other deposits received	**65,720**	—	**—**	—
Accrued expenses	**7,442**	3,975	**830**	2,439
Other payables	**45,049**	85,205	**142**	111
	334,972	90,255	**972**	2,550

* Customers' deposits received represented instalments of sales proceeds received from buyers in connection with the Group's pre-sale of properties. Customers' deposits received are expected to be recognised as revenue of the Group within one year.

31. DUE TO MINORITY EQUITY HOLDERS OF SUBSIDIARIES — GROUP

	2008 HK$'000	2007 HK$'000
Interest bearing advances	—	5,733
Non-interest bearing advances	12,283	1,134
	12,283	6,867

The amount due is unsecured and repayable on demand. The interest paid was charged at interest rate of 7.47% per annum for the year ended 31 December 2007 on the interest bearing advances.

32. DUE TO A RELATED COMPANY — GROUP

The amount due is unsecured, interest bearing at market rate plus 20% and repayable within 3 months.

Ms. Chen Dong Xue, a director of the Company, has beneficial interest in this related company.

33. DUE TO DIRECTORS — GROUP AND COMPANY

The amounts due to Mr. Chen Chang Wei and Mr. So Pang Gen are unsecured, interest-free and repayable on demand.

Subsequent to the balance sheet date on 2 February 2009, HK$33,376,000 included in amount due from an equity holder (note 24) was offset against the amount due to a director, Mr. Chen Chang Wei.

34. PROMISSORY NOTES — GROUP AND COMPANY

On 21 January 2008, the Company issued promissory notes with an aggregate principal amount of HK$250,000,000 to Mr. Chen Chang Wei as part of the consideration for the acquisition of Amazing Wise Limited and its subsidiaries (the "Amazing Group") (note 41). The promissory notes are unsecured, interest-free and has extended maturity at 30 June 2009.

	Group and Company HK$'000
Net carrying amount at 1 January 2008	—
Net carrying amounts at fair value on initial recognition (note 41)	240,486
Repayments	(140,000)
Interest expenses (note 7)	8,205
Net carrying amount at 31 December 2008	**108,691**

On the initial recognition, the fair value of promissory note is discounted by applying the effective interest rate of 8%. The directors consider the carrying amount of the promissory note approximates to its fair value.

35. BANK BORROWINGS — GROUP AND COMPANY

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Non-current				
Bank loans, secured	**725,005**	63,829	**—**	—
Current				
Bank loans, secured	**168,473**	—	**—**	—
Bank overdrafts, unsecured	**218**	466	**—**	466
	168,691	466	**—**	466
Total bank borrowings	**893,696**	64,295	**—**	466

At 31 December 2008, the Group's bank borrowings were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**168,691**	466	**—**	466
In the second year	**725,005**	63,829	**—**	—
	893,696	64,295	**—**	466

Certain bank loans of the Group are guaranteed by Mr. Chen Chang Wei, Ms. Chen Sheung Ni, a director of the Company and a family member of Mr. Chen Change Wei and Ms. Chen Sheung Ni, Bank loans of the Group are also secured by the pledge of certain properties of Mr. Chen Chang Wei, Ms. Chen Sheung Ni and a family member of Mr. Chen Chang Wai and Ms. Chen Sheung Ni. In addition to the above, certain bank loans of the Group are secured by the pledge of certain assets with net carrying amount as follows:

	2008	2007
	HK$'000	HK$'000
Investment properties (note 14)	**23,794**	—
Leasehold properties (note 15)	**1,522**	—
Prepaid lease payments (note 16)	**8,185**	—
Properties under development (note 20)	**2,686,427**	73,365
	2,719,928	73,365

At the balance sheet date, the Group had outstanding bank borrowings of HK$893,696,000 (2007: HK$64,295,000) of which HK$33,975,000 (2007: HK$63,829,000) carry fixed interest rate of 7.20% per annum (2007: from 6.03% to 7.56 per annum) and the remaining HK$859,721,000 (2007: HK$466,000) bear floating interest rates ranging from 2.80% to 7.74% (2007: daily market rate) per annum.

At the balance sheet date, the Group has unutilised bank loans facilities amounted to HK$98,528,000 (2007: Nil)

35. BANK BORROWINGS — GROUP AND COMPANY *(Continued)*

The Group's bank borrowings are denominated in the following currencies:

	2008	2007
	HK$'000	HK$'000
Hong Kong dollars	**113,401**	466
Renminbi	**780,295**	63,829
	893,696	64,295

The carrying amounts of the Group's bank borrowings approximate to their fair value.

36. CONVERTIBLE BONDS — GROUP AND COMPANY

On 21 January 2008, the Company issued HK$2,701,711,500 zero coupon convertible bonds at 100% of principal amount to Mr. Chen Chang Wei as part of the consideration for the acquisition of the Amazing Group (note 41). The convertible bonds are secured by the share of Amazing Wise Limited held by the Group. Pursuant to the agreement, the bondholder is restricted to the exercise of conversion rights attaching to the convertible bonds to the extent that the total number of shares held by the bondholder as at the date of such conversion would represent 29% or more of the issued share capital of the Company following such conversion or which would result in the Company having less than the minimum public float requirement as stipulated by the SEHK from time to time. The bonds can be converted into 5,403,423,000 shares at HK$0.50 per shares. Unless previously converted, the Company will redeem the convertible bonds on 20 January 2018.

The fair value of the liability component, included in the convertible bonds, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in convertible bond equity reserve.

The convertible bonds recognised in the balance sheet are calculated as follows:

	Group and Company		
	Liability component	**Equity component**	**Total**
	HK$'000	HK$'000 (note 40(b))	HK$'000
Net carrying amounts at 1 January 2008	—	—	—
Net carrying amounts on initial recognition	1,251,415	157,393	1,408,808
Interest expenses (note 7)	88,323	—	88,323
Exercise of convertible bonds	(161,329)	(19,866)	(181,195)
Net carrying amounts at 31 December 2008	**1,178,409**	**137,527**	**1,315,936**

36. CONVERTIBLE BONDS — GROUP AND COMPANY *(Continued)*

The fair value of the liability component of the convertible bonds at the date of issue amounted to approximately HK$1.2 billion. The fair value is calculated using discounted cash flow method at a rate of 8%.

During the year ended 31 December 2008, the convertible bonds at the principal amount of HK$341,000,000 were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 682,000,000 (note 38).

Interest expenses on the convertible bonds are calculated using the effective interest method by applying the effective interest rate of 8% to the liability component.

37. DEFERRED TAX — GROUP

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 25% (2007: 25%).

The movement on the deferred tax liabilities/(assets) is as follows:

	2008 HK$'000	2007 HK$'000
At 1 January	**(11,615)**	(5,994)
Currency realignment	**(1,270)**	(433)
Attributable to change in tax rate:		
— Charged to income statement (note 9)	**—**	1,437
— Charge to property, plant and equipment revaluation reserve	**—**	15
Credited to income statement (note 9)	**(62,278)**	(10,022)
(Credited)/charged to property, plant and equipment revaluation reserve	**(2,413)**	2,038
(Credited)/charged to minority interests	**(1,473)**	1,344
Acquisition of subsidiaries	**999,281**	—
Disposals of subsidiaries	**20,688**	—
At 31 December	**940,920**	(11,615)

Deferred tax liabilities

	Revaluation of properties	
	2008 HK$'000	2007 HK$'000
At 1 January	**14,682**	14,010
Currency realignment	**527**	534
Attributable to change in tax rate:		
— Credited to income statement	**—**	(3,413)
— Charge to property, plant and equipment revaluation reserve	**—**	15
(Credited)/charged to income statement	**(57,125)**	154
(Credited)/charged to property, plant and equipment revaluation reserve	**(2,413)**	2,038
Acquisition of subsidiaries (note 41)	**999,281**	—
Disposal of subsidiaries (note 42)	**(3,201)**	—
(Credited)/charged to minority interests	**(1,473)**	1,344
At 31 December	**950,278**	14,682

37. DEFERRED TAX — GROUP *(Continued)*

Deferred tax assets

	LAT	
	2008	2007
	HK$'000	HK$'000
At 1 January	**26,297**	20,004
Currency realignment	**1,797**	967
Attributable to change in tax rate:		
— Charged to income statement	**—**	(4,850)
Credited to income statement	**5,153**	10,176
Disposal of subsidiaries (note 42)	**(23,889)**	—
At 31 December	**9,358**	26,297

At the balance sheet date, the Group had estimated unused tax losses of approximately HK$43,639,000 (2007: HK$15,069,000) available to offset against future assessable profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams. The tax losses arose in the PRC can be carried forward for five years and the tax losses of the Group arose elsewhere other than in the PRC can be carried forward indefinitely.

38. SHARE CAPITAL — GROUP AND COMPANY

		2008		2007	
	Notes	**Number of shares '000**	**HK$'000**	Number of shares '000	HK$'000
Authorised:					
Ordinary shares of HK$0.10 each at 31 December		**1,000,000**	**100,000**	1,000,000	100,000
Issued and fully paid:					
Ordinary shares of HK$0.10 each at 1 January		**296,330**	**29,633**	292,600	29,260
Shares issued upon acquisition of subsidiaries (note 41)	(a)	**114,177**	**11,418**	—	—
Exercise of convertible bonds (note 36)	(b)	**682,000**	**68,200**	—	—
Exercise of share options	(c)	**—**	**—**	3,730	373
Ordinary shares of HK$0.10 each at 31 December		**1,092,507**	**109,251**	296,330	29,633

38. SHARE CAPITAL — GROUP AND COMPANY *(Continued)*

During the years ended 31 December 2008 and 2007, the movements in share capital were as follows:

(a) On 21 January 2008, the Company issued 114,177,000 ordinary shares of HK$0.10 each to Mr. Chen Chang Wei as part of the purchase consideration of acquiring Amazing Wise Limited. The fair value of the shares issued at the date of acquisition amounted to HK$55,946,000.

(b) During the year ended 31 December 2008, 682,000,000 ordinary shares of HK$0.10 each were issued pursuant to the exercise of the conversion rights attaching to the Company's convertible bonds at a conversion price of approximately HK$0.50 per share (note 36).

(c) During the year ended 31 December 2007, share options were exercised to subscribe for 3,730,000 ordinary shares of HK$0.10 each for total cash consideration of approximately HK$1,342,000.

39. SHARE-BASED EMPLOYEE COMPENSATION

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15 May 2002 (the "Adoption Date") for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme will remain in force for ten years from the Adoption Date (the "Scheme Period").

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the issued shares of the Company from time to time.

Options granted are exercisable in accordance with the terms of the Scheme at any time during a period of 2 years commencing on the date on which the offer of the grant of the options is made, which must not exceed the last day of the Scheme Period, upon payment of HK$1 per option within a vesting period of 28 days from the offer of the grant of the options.

The exercise price is determined by the directors of the Company, and would not be less than the higher of the average closing price of the shares on the SEHK on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the SEHK on date of offer; and the nominal value of the shares.

All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

All the above share options were granted on 27 September 2005 and have a vesting period from 27 September 2005 to 25 October 2005. The share options were exercisable from 27 September 2005 to 25 September 2007 at an exercise price of HK$0.36 per share.

During the year ended 31 December 2007, 3,730,000 share options were exercised. The weighted average share price of these shares at the date of exercise was HK$0.6 per share. All remaining unexercised share options have been lapsed upon expiry of the exercise period.

40. RESERVES — GROUP AND COMPANY

(a) Group

Capital reserve

In 2002, upon the reorganisation and the listing of the Company, Mr. So Pang Gen, International Offshore Development Limited ("International Offshore"), Chance Fair International Development Limited and Future Opportunity Limited (hereinafter collectively referred to as the "Convenantors", the beneficial owners of the Company, entered into a deed of tax indemnity with the Company whereby the Convenantors have on joint and several basis, under certain terms and conditions, undertaken to indemnify the Company in respect of the LAT which might be payable by any member of the Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of listing of the Company's shares on the SEHK (the "Listing Date") or by reference to any act, transaction or event occurring or deemed to occur on or before the Listing Date. The capital reserve of the Company and of the Group represents the estimated indemnity of LAT from the Convenantors.

Special reserve

The special reserve of the Group represents the difference between the aggregate nominal value of the share capital of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company prior to a group reorganisation.

(b) Company

	Share premium HK$'000	Capital reserve HK$'000 (note 40(a))	Special reserve HK$'000	Share option reserve HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	33,450	7,324	127,961	308	—	(58,295)	110,748
Exercise of share options	1,258	—	—	(289)	—	—	969
Lapsed share options under share option scheme	—	—	—	(19)	—	19	—
Loss for the year	—	—	—	—	—	(7,870)	(7,870)
At 31 December 2007 and 1 January 2008	34,708	7,324	127,961	—	—	(66,146)	103,847
Issue of convertible bonds (note 36)	—	—	—	—	157,393	—	157,393
Exercise of convertible bonds (note 36)	112,995	—	—	—	(19,866)	—	93,129
Issue of shares (note 38(a))	44,528	—	—	—	—	—	44,528
Release of capital reserve upon disposals of subsidiaries	—	(4,286)	—	—	—	—	(4,286)
Loss for the year	—	—	—	—	—	(5,003)	(5,003)
At 31 December 2008	192,231	3,038	127,961	—	137,527	(71,149)	389,608

The special reserve of the Company represents the difference between the aggregate of the net assets value of the Company's subsidiaries acquired and the nominal value of the shares issued by the Company prior to a group reorganisation.

41. BUSINESS COMBINATION

On 21 January 2008, the Group acquired the entire issued share capital of Amazing Wise Limited ("Amazing Wise") from Mr. Chen Chang Wei. The agreed aggregate consideration of HK$3,008,800,000 is satisfied by the Company issuing (i) the promissory notes in the principal amount of HK$250,000,000; (ii) the convertibles bonds in the principal amount of HK$2,701,711,500; and (iii) 114,177,000 ordinary shares of the Company of HK$0.10 each for HK$0.50 each. The Amazing Group is principally engaged in property development in the PRC. Details of the acquisition are included in the Company's circular dated on 5 December 2007.

Details of net assets acquired and goodwill are as follows:

	HK$'000
Promissory notes issued, at fair value (note 34)	240,486
Convertible bonds issued, at fair value (note 36)	1,408,808
Shares issued, at fair value (note 38(a))	55,946
Fair value of total purchase consideration	1,705,240
Fair value of net assets acquired	(1,310,458)
Goodwill (note 18)	394,782

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of the Amazing Group.

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	**Carrying amount** HK$'000
Property, plant and equipment (note 15)	2,842	5,731
Prepaid lease payments (note 16)	25,200	8,250
Properties under development	2,741,538	332,254
Prepayments, deposits and other receivables	1,567	1,567
Loan to a director	310,497	310,497
Cash and bank balances	7,902	7,902
Account payables	(107,033)	(107,033)
Deposits received, accrued expenses and other payables	(67,103)	(67,103)
Due to a director	(29,153)	(29,153)
Due to a minority equity holder of a subsidiary of Amazing Wise	(26)	(26)
Bank borrowings	(499,823)	(499,823)
Provision for tax	(1,118)	(1,118)
Deferred tax liabilities (note 37)	(999,281)	—
Net assets/(liabilities)	1,386,009	(38,055)
Minority interests	(75,551)	
Fair value of net assets acquired	1,310,458	
Cash and banks balances in subsidiaries acquired		7,902
Cash paid		—
Net cash inflow		7,902

41. BUSINESS COMBINATION *(Continued)*

Since its acquisition, the Amazing Group contributed nil revenue and net loss of HK$3,989,000 to the Group for the period from 21 January 2008 (date of acquisition) to 31 December 2008.

Had the business combination taken place on 1 January 2008, the revenue and the net loss for the year ended 31 December 2008 would have been HK$149,029,000 and HK$530,206,000 respectively. These pro forma information are for illustrative purpose only and are not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor are they intended to be a projection of future results.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Disposals of subsidiaries

On 30 May 2008, the Company entered into a conditional sale and purchase agreement (the "Agreement") with International Offshore. Pursuant to the Agreement, the Company has agreed to sell (i) the entire issued share capital of China Fair Land Properties Limited, a wholly-owned subsidiary of the Company and its subsidiaries (together the "CFL Properties Group"); and (ii) the benefits of and interests in the sale loans to the CFL Properties Group, at an adjusted aggregate consideration of approximately HK$134,310,000 as agreed by the contracted parties. The completion date of such disposal was on 2 December 2008. The CFL Properties Group is principally engaged in property development in the PRC. Details of the disposal are included in the Company's circular dated on 30 June 2008.

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Disposals of subsidiaries *(Continued)*

	2008 HK$'000	2007 HK$'000
Net assets/(liabilities) disposed of:		
Investment properties (note 14)	129,638	—
Property, plant and equipment (note 15)	13,633	—
Prepaid lease payments (note 16)	2,936	—
Deferred tax assets (note 37)	23,889	—
Properties held for sale	88,664	—
Account receivables, net	45,293	—
Prepayments, deposits and other receivables	14,020	—
Due from related companies	47,483	—
Due from a minority equity holder of subsidiary	506	—
Cash and banks balances	1,285	—
Due from group companies disposed of	(22,922)	—
Accounts payables	(13,944	—
Accrued expenses and other payables	(43,297)	—
Provision for tax	(159,169)	—
Deferred tax liabilities (note 37)	(3,201)	—
Minority interests	(15,296)	—
	109,518	—
Disposals of loans to the CFL Properties Group	22,922	—
Release of translation reserve upon disposal	(28,191)	—
Gain on disposals of subsidiaries	30,061	—
Total consideration	134,310	—
Satisfied by:		
Cash received	14,089	—
Offsetting against balance with holding company of an equity holder	44,588	—
Offsetting against amount due to a director	39,950	—
Outstanding balances included in amounts due from an equity holder in the consolidated balance sheet	35,683	—
Total consideration	134,310	—

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

Disposals of subsidiaries *(Continued)*

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2008 **HK$'000**	2007 HK$'000
Cash received	**14,089**	—
Cash and bank balances disposed of	**(1,285)**	—
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**12,804**	—

43. OPERATING LEASE COMMITMENTS

At 31 December 2008, the total future minimum lease payments regarding the office premises under non-cancellable operating leases are payable by the Group as follows:

	Group		**Company**	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Within one year	**170**	380	**11**	—
In the second to fifth years	**111**	28	**18**	—
	281	408	**29**	—

The Group leases a number of properties and items of office equipment under operating leases. The leases run for an initial period of 5 years, with an option to renew the lease and renegotiated the terms at the expiry date or at dates as mutually agreed between the Group and respective lessor. None of the leases include contingent rentals.

44. FUTURE OPERATING LEASE ARRANGEMENTS

At 31 December 2008, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2008 HK$'000	2007 HK$'000
Within one year	2,005	19,299
In the second to fifth years	2,371	65,354
After five years	—	111,289
	4,376	195,942

The Group leases its investment properties (note 14) under operating lease arrangements which run for an initial period of 1 to 5 years, with an option to renew the lease terms at the expiry date or at dates as mutually agreed between the Group and the respective tenants. The terms of the leases generally also require the tenants to pay security deposits.

The Company does not have any minimum lease receipts under non-cancellable operating leases.

45. COMMITMENTS

In addition to those disclosed elsewhere in the consolidated financial statements, the Group had the following commitments:

	2008 HK$'000	2007 HK$'000
Contracted, but not provided for, in respect of		
— property development	896,826	166,376

The Company does not have any significant commitments at 31 December 2008.

46. RELATED PARTY TRANSACTIONS

(a) In addition to those disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

	Notes	**2008 HK$'000**	2007 HK$'000
Finance costs paid to minority equity holders of subsidiaries		**—**	615
Loan interest income earned from a director	(i)	**9,870**	—
Disposals of subsidiaries to a related company	(ii)	**134,310**	—

Notes:

(i) An one year loan agreement was signed on 20 June 2007 between Fujian Zhonglu and Mr. Chen Chang Wei, the director of the Company, for borrowing the maximum principal amount of RMB278 million with interest-bearing at 7.74% p.a. On 16 June 2008, a supplemental agreement was made to agree extension of the repayment date of the loan granted to Mr. Chen from 20 June 2008 to 20 June 2009.

(ii) On 2 December 2008, the Company disposed of the CFL Properties Group to International Offshore at consideration of HK$134,310,000. Details of the disposal are included in note 42.

(b) Key management personnel compensation

Included in staff costs are key management personnel compensation and comprises the following categories:

	2008 HK$'000	2007 HK$'000
Short term employee benefits	**4,216**	3,536

47. CONTINGENT LIABILITIES

At 31 December 2008, the Group provided guarantees of approximately HK$72,190,000 (2007: HK$17,053,000) to banks in favour of its customers in respect of the mortgage loans provided by the banks to such customers for purchase of the Group's developed properties. These guarantees provided by the Group to the banks would be released upon receiving the building ownership certificates of the respective properties by the banks from the customers as pledges for security to the mortgage loans granted. At the balance sheet date, no provision for the Group's obligation under these guarantee contracts has been made as the directors considered that it was not probable that the repayment of the loans would be in default.

The directors consider that in case of default in payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made in the financial statements for the guarantees.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group does not have written risk management policies and guidelines. However the board of directors meets periodically to analyse and formulate measures to manage the Group's exposure to market risk (including principally changes interest rates and currency exchange rates), credit risk and liquidity risk. Generally, the Group employs conservative strategies regarding its risk management. As the Group's exposure to market risk is kept to a minimum level, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

48.1 Interest rate risks

The Group's exposure to interest rate risk mainly arises on bank deposits (note 28), interest-bearing bank borrowings at floating rates (note 35). The Group has not used any derivative contracts to hedge its exposure to interest rate risk. The Group has not formulated a policy to manage the interest rate risk.

Interest rate sensitivity analysis

At 31 December 2008, if a general increase of 100 basis points in interest rates is estimated, with all other variable held constant, each of the profit after tax for the year and accumulated losses of the Group would decrease and increase by approximately HK$1,008,000 (2007: HK$462,000) respectively. The assumed changes have no impact on the Group's other components of equity.

A general decrease of 100 basis points in interest rate would have had the equal but opposite effect on the profit after tax for the year and accumulated losses to the amounts shown above, on the basis that all other variables remain constant.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the beginning of the year and had been applied to the abovementioned financial instruments at that date and throughout the year constantly. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for the year ended 31 December 2007.

As the Company has no significant interest-bearing assets and liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

48.2 Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheets which are summarised in note 48.6 below. None of the financial assets of the Group and the Company are secured by collateral or other credit enhancements.

All the Group's bank balances are deposited with major banks located in Hong Kong and the PRC.

The carrying amounts of the account receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. No other financial assets carry a significant exposure to credit risk. The major concentration of credit risk arises from the Group's exposure to a substantial number of account receivables in one geographical region, i.e., the PRC.

48.3 Foreign currency risk

The Group reports its result in HK$. The Group's primary foreign currency exposure arises from its property development and investment activities in the PRC. The functional currency of these operations is RMB and most of the financial instruments are denominated in RMB. The Group's exposure to credit risk is minimal.

As the Company does not have significant exposure to foreign currency risk, the Company's income and operating cash flows are substantially independent of changes in foreign currency rates.

48.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of the funding through the ability to close-out market positions. In the opinion of the directors of the Company, despite the Group incurred net loss of HK$503,523,000 attributable to the equity holders of the Company for the year ended 31 December 2008 and the Company had net current liabilities of HK$27,973,000 as at 31 December 2008 as detailed in note 3.1 to the financial statements, the Group does not have any significant liquidity risk exposure. The liquidity of the Group and the Company are primarily dependent on its ability to maintain adequate cash in flow from operations and financing and to obtain continual financial support from Mr. Chen Chang Wei (see not 3.1).

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

48.4 Liquidity risk *(Continued)*

The following table summarises the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows:

Group

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Less than one year HK$'000	One year or above HK$'000
At 31 December 2008					
Account payables	**187,796**	**187,796**	**187,796**	**—**	**—**
Other payables	**52,491**	**52,491**	**52,491**	**—**	**—**
Due to minority equity holders of subsidiaries	**12,283**	**12,283**	**12,283**	**—**	**—**
Due to a related company	**3,398**	**3,447**	**—**	**3,447**	**—**
Due to directors	**18,889**	**18,889**	**18,889**	**—**	**—**
Promissory notes	**108,691**	**110,000**	**—**	**110,000**	**—**
Bank borrowings	**893,696**	**1,071,791**	**219**	**182,195**	**889,377**
Convertible bonds	**1,178,409**	**2,360,712**	**—**	**—**	**2,360,712**
	2,455,653	**3,817,409**	**271,678**	**295,642**	**3,250,089**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Less than one year HK$'000	One year or above HK$'000
At 31 December 2007					
Account payables	28,339	28,339	28,339	—	—
Other payables	85,205	85,205	85,205	—	—
Due to an equity holder	9,591	9,591	9,591	—	—
Due to minority equity holders of subsidiaries	6,867	6,867	6,867	—	—
Due to directors	503	503	503	—	—
Bank borrowings	64,295	71,329	466	—	70,863
	194,800	201,834	130,971	—	70,863

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

48.4 Liquidity risk *(Continued)*

Company

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Less than one year HK$'000	One year or above HK$'000
At 31 December 2008					
Other payables	**972**	**972**	**972**	**—**	**—**
Due to an equity holder	**2,307**	**2,307**	**2,307**	**—**	**—**
Due to subsidiaries	**10,701**	**10,701**	**10,701**	**—**	**—**
Due to directors	**15,051**	**15,051**	**15,051**	**—**	**—**
Promissory notes	**108,691**	**110,000**	**—**	**110,000**	**—**
Convertible bonds	**1,178,409**	**2,360,712**	**—**	**—**	**2,360,712**
	1,316,131	**2,499,743**	**29,031**	**110,000**	**2,360,712**

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	On demand HK$'000	Less than one year HK$'000	One year or above HK$'000
At 31 December 2007					
Other payables	111	111	111	—	—
Due to an equity holder	55,962	55,962	55,962	—	—
Due to subsidiaries	11,160	11,160	11,160	—	—
Bank borrowings	466	466	466	—	—
	67,699	67,699	67,699	—	—

48.5 Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments. The fair value of long term liabilities was not disclosed because the carrying value is not materially different from the fair value.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

48.6 Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at the balance sheet dates are also analysed into the following categorises. See notes 3.13 and 3.21 for explanations about how the category of financial instruments affects their subsequent measurement.

Financial assets

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Available-for-sale financial assets	**2,265**	2,128	**—**	—
Loans and receivables				
— Account receivables	**1,611**	105,761	**—**	—
— Other receivables	**15,639**	23,136	**4,604**	7,324
— Due from subsidiaries	**—**	—	**69,435**	67,970
— Due from equity holders	**36,202**	—	**35,683**	—
— Due from a minority equity holder of a subsidiary	**—**	3,511	**—**	—
— Due from related companies	**21**	383	**21**	18
— Loan to a director	**327,667**	—	**—**	—
Cash and bank balances	**89,133**	23,864	**6**	—
	472,538	158,783	**109,749**	75,312

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

48.6 Summary of financial assets and liabilities by category *(Continued)*

Financial liabilities

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Financial liabilities measured at amortised cost				
— Account payables	**187,796**	28,339	**—**	—
— Other payables	**52,491**	85,205	**972**	111
— Due to an equity holder	**—**	9,591	**2,307**	55,962
— Due to minority equity holders of subsidiaries	**12,283**	6,867	**—**	—
— Due to a related company	**3,398**	—	**—**	—
— Due to subsidiaries	**—**	—	**10,701**	11,160
— Due to directors	**18,889**	503	**15,051**	—
— Promissory notes	**108,691**	—	**108,691**	—
— Bank borrowings	**893,696**	64,295	**—**	466
— Convertible bonds	**1,178,409**	—	**1,178,409**	—
	2,455,653	194,800	**1,316,131**	67,699

49. CAPTIAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current years.

The Group monitors capital using a gearing ratio, which is net debt divided by aggregate of net debts and total capital. Net debts are calculated as bank loans, including as current and non-current portion, promissory notes and convertible bonds net of cash and bank balances as shown in the consolidated balance sheet. Total capital is calculated as total equity, as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios as at 31 December 2008 and 2007 were as follows:

	2008 HK$'000	2007 HK$'000
Total debts		
Bank loans, secured	**893,478**	63,829
Promissory notes	**108,691**	—
Convertible bonds	**1,178,409**	—
	2,180,578	63,829
Less: Cash and bank balances	**(89,133)**	(23,864)
Net debts	**2,091,445**	39,965
Total capital	**224,792**	357,338
Total debt to capital ratio	**90.29%**	10.06%

The increase in the gearing ratio during 2008 results primarily from the issue of promissory notes and convertible bonds as detailed in notes 34 and 36.

	Year ended 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000 (Restated)	2007 HK$'000	**2008** **HK$'000**
RESULTS					
Revenue	261,947	107,099	56,682	136,321	**149,029**
Profit/(loss) before income tax	59,469	26,907	1,460	83,953	**(555,146)**
Income tax (expense)/credit	(21,850)	(2,163)	(40,570)	(57,982)	**25,009**
Profit/(loss) for the year	37,619	24,744	(39,110)	25,971	**(530,137)**
Profit/(loss) attributable to					
equity holders of the Company	15,013	20,459	(22,469)	18,406	**(503,523)**
Minority interests	22,606	4,285	(16,641)	7,565	**(26,614)**
Profit/(loss) for the year	37,619	24,744	(39,110)	25,971	**(530,137)**

	At 31 December				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	629,900	647,354	642,708	766,003	**3,997,432**
Total liabilities	(313,458)	(311,178)	(332,402)	(408,665)	**3,772,640**
Net assets	316,442	336,176	310,306	357,338	**224,792**
Equity attributable to the					
Company's equity holders	245,543	266,694	256,919	294,388	**135,942**
Minority interests	70,899	69,482	53,387	62,950	**88,850**
Total equity	316,442	336,176	310,306	357,338	**224,792**

PARTICULARS OF PROPERTY HELD FOR SALE — AS OF 31 DECEMBER 2008

Project Name	Approximate Site Area sq.m		Approximate Gross Floor Area (GFA) sq.m	Development Status	Completed GFA sq.m	GFA under Construction sq.m	Interest held by the Group	Estimated Completion Date
Fanjing Garden (Phase III)	N/A	Residential	—	Completed	—	N/A	37.5%	N/A
288 Yuchai Road, Yonghong Village		Shop	61		61			
Wantou County, Ningbo			61		61			
Fanjing Garden (Phase III)	N/A	Blk A Residential	147	Completed	147	N/A	37.5%	N/A
High Rise Buildings		Blk B Residential	142		142			
288 Yuchai Road, Yonghong Village			289		289			
Wantou County, Ningbo								
Jinxiu Garden	N/A	Residential	1,343	Completed	1,343	N/A	37.5%	N/A
Fortune Garden (Phase I & II)		Carpark	18		18			
Zhongxing Road East, Ningbo		Shop	1,193		1,193			
			2,554		2,554			
Wenjing Garden	N/A	Residential	335	Completed	335	N/A	37.5%	N/A
Fortune Garden (Phase IV)		Carpark	153		153			
Zhongxing Road East, Ningbo		Shop	1,009		1,009			
			1,497		1,497			
盛世桃園	N/A	Residential	3,356	Completed	3,356	N/A	37.5%	N/A
Xinan Xikou Town								
Fenghua, Ningbo								

PARTICULARS OF PROPERTY UNDER DEVELOPMENT — AS OF 31 DECEMBER 2008

Project Name	Approximate Site Area sq.m		Approximate Gross Floor Area (GFA) sq.m	Development Status	Completed GFA sq.m	GFA under Construction sq.m	Interest held by the Group	Estimated Completion Date
盛世嘉苑 Chung Xing Road Hongtang Zhong Venture Centre, Jiangbei District, Lot No.6, Ningbo	44,698	Residential	81,000	Under Development	N/A	N/A	37.5%	Jan 2008
姚江新都大廈 Hongtang Zhong Road Jiangbei District, Ningbo	13,237	Commercial	46,000	Under Development	N/A	N/A	33.75%	Dec 2008
A piece of land in RongSha Zhen, Cixi, Ningbo	17,514	Commercial	—	Under Planning	N/A	N/A	26.25%	N/A
中旅城二期 No. 128 Wusi Road Gulou District Fuzhou City, Fujian	24,979	Residential Retail Office Basement carpark	82,495 62,433 32,234 65,106 242,268	Under Development			95%	Dec 2011
恒力金融中心 與湖東路交界 鼓樓區五四路 福州市，福建	6,035	Commercial	48,310	Under Development	N/A	N/A	100%	Dec 2011

PARTICULARS OF PROPERTY HELD FOR INVESTMENT — AS OF 31 DECEMBER 2008

Project Name	Site Area sq.m		Gross Floor Area (GFA) sq.m	Development Status sq.m	Completed GFA sq.m	GFA under Construction	Interest held by the Group	Expected Completion Date
Shop Nos.1-15 to 1-18, 354-360 Hongtang Zhong Road Jiangbei District, Ningbo	N/A	Commercial	261	N/A	N/A	N/A	37.5%	N/A
Portion of levels 1 and 2, Nos. 416, 416-1 and 416-2 Cuibo Road Jiangbei District, Ningbo	N/A	Commercial	3,111	N/A	N/A	N/A	37.5%	N/A

PARTICULARS OF PROPERTY FOR OWNER OCCUPATION — AS OF 31 DECEMBER 2008

Project Name	Site Area		Gross Floor Area (GFA)	Development Status	Completed GFA	GFA under Construction	Interest held by the Group	Expected Completion Date
	sq.m		sq.m	sq.m	sq.m			
Fanjing Garden 288 Yuchai Road, Yonghong Village Wantou County, Ningbo	N/A	Kindergarden	2,520	Completed	2,520	N/A	37.5%	N/A
Fanjing Garden 282 and 286 Yuchai Road Yonghong Village Wantou County, Ningbo	N/A	8 office units Clubhouse	422 960 1,382	Completed	422 960 1,382	N/A	37.5%	N/A
House No.51 Tong Fang Yuan, Baita East Road, Pingjiang District Suzhou	N/A		130	Completed	130	N/A	37.5%	N/A
Portion of levels 1 to 3, Nos. 271-1, 273, 275 and 275-1 275-1 Fangjiangan Road Jiangbei District, Ningbo	N/A	Commercial	1,726	N/A	N/A	N/A	37.5%	N/A
Unit 3401, 34/F Tower Two Lippo Centre 89 Queensway Hong Kong	N/A	Commercial	1,686	N/A	N/A	N/A	100%	N/A